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FOREIGN ASSISTANCE AND RELATED AGENCIES
APPROPRIATIONS FOR 1971

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

NINETY-FIRST CONGRESS

SECOND SESSION

SUBCOMMITTEE ON FOREIGN OPERATIONS AND RELATED AGENCIES

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PART 1

MILITARY ASSISTANCE

RELATED AGENCIES:

Asian Development Bank
Cuban Refugees
Export-Import Bank
International Development Association
Migration and Refugee Assistance
Peace Corps
Ryukyu Islands

Printed for the use of the Committee on Appropriations

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FOREIGN ASSISTANCE AND RELATED AGENCIES APPROPRIATIONS, FISCAL YEAR 1971

WEDNESDAY, FEBRUARY 18, 1970.

DEPARTMENT OF STATE

MIGRATION AND REFUGEE ASSISTANCE

WITNESSES

CLEMENT J. SOBOTKA, ACTING SPECIAL ASSISTANT TO THE SECRETARY OF STATE FOR REFUGEE AND MIGRATION AFFAIRS
RAYMOND W. LAUGEL, ACTING DIRECTOR, OFFICE OF REFUGEE AND MIGRATION AFFAIRS
FRANK M. BRYAN, REFUGEE AND MIGRATION OFFICER
ANTHONY C. CHASTKA, BUDGET ANALYST

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Program by activities:			
1. Contribution to Intergovernmental Committee for European Migration	3,600	3,500	2,900
2. Contribution to United Nations High Commissioner for Refugees	800	1,000	800
3. Refugees from European Communist countries	5,400	5,500	814
4. Refugees from Communist China	500	500	500
5. Administration	867	774	723
6. Contribution to International Committee of the Red Cross	50	50	50
7. 1968 program funds obligated in 1969	712		
8. 1969 program funds obligated in 1970	−2,050	2,050	
Total obligations	9,878	13,374	5,787
Financing:			
Unobligated balance available, start of year	−712	−2,050	
Unobligated balance available, end of year	2,050		
Unobligated balance lapsing	1		
Budget authority	11,217	11,324	5,787
Budget authority:			
Appropriation	5,511	5,511	5,787
Transferred from other accounts	5,706	5,752	
Appropriation (adjusted)	11,217	11,263	5,787
Proposed supplemental for civilian pay act increases		61	
Relation of obligations to outlays:			
Obligations incurred, net	9,878	13,374	5,787
Obligated balance, start of year	1,357	1,545	4,519
Obligated balance, end of year	−1,545	−4,519	−1,606
Adjustments in expired accounts	−105		
Outlays, excluding pay increase supplemental	9,585	10,342	8,697
Outlays from civilian pay act supplements		58	3

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Personnel compensation:			
Permanent positions	417	627	611
Positions other than permanent	3	3	3
Other personnel compensation	12	12	12
Total personnel compensation	432	642	626
Personnel benefits: Civilian employees	57	89	67
Travel and transportation of persons	14	22	12
Transportation of things	1	1	1
Rent, communications, and utilities	8	5	5
Printing and reproduction	4	4	4
Other services	4,957	8,004	1,318
Supplies and materials	2	3	2
Equipment	4	4	2
Grants, subsidies, and contributions	4,400	4,600	3,750
Total obligations	9,878	13,374	5,787

PERSONNEL SUMMARY

Total number of permanent positions	54	48	44
Average number of all employees	35	46	45
Average GS grade	8.6	8.8	8.5
Average GS salary	$10,894	$12,255	$12,212
Average grade and salary established by the Foreign Service Act of 1946 (22 U.S.C. 801–1158):			
Average grade:			
Foreign Service officer	3.7	3.8	3.8
Foreign Service reserve	2.5	2.5	2.5
Foreign Service staff	6.3	5.7	5.7
Average salary:			
Foreign Service officer	$17,340	$19,533	$19,533
Foreign Service reserve	$22,923	$25,707	$26,122
Foreign Service staff	$9,569	$11,954	$12,326
Average salary in foreign countries (local rates)	$4,003	$4,262	$4,368

Mr. PASSMAN. The committee will come to order.

This afternoon marks the beginning of the hearings on the foreign assistance appropriation bill for fiscal year 1971. The first budget request that we will consider will be that of the migration and refugee assistance program of the Department of State.

The main witness is the Acting Special Assistant to the Secretary of State, Clement J. Sobotka, accompanied by his supporting witnesses whose names will appear in the record.

Mr. Secretary, I assume you have a statement you would like to make to the committee?

Mr. SOBOTKA. Yes, I have, Mr. Chairman.

GENERAL STATEMENT

Mr. Chairman and members of the committee, I am appearing before you today to support the basic Department of State appropriation request for "Migration and Refugee Assistance" in the amount of $5,787,000 for fiscal year 1971. My name is Clement J. Sobotka, Acting Special Assistant to the Secretary of State for Refugee and Migration Affairs. We believe that this program, of relatively modest scope and expense, is necessary both to advance U.S. interests and to relieve the distress of thousands of refugees who have abandoned their homelands because of persecution, political strife, war, and other unsettled conditions in many parts of the world.

I wish it were possible to report to you that dramatic progress has been made over the past year to relieve or solve the many refugee problems. Although a substantial improvement has been made, the basic problems persist because the root causes which produce them are still with us and will continue through this year and well beyond.

WORLDWIDE REFUGEE PROBLEMS

As you know, Mr. Chairman, there are few areas on this globe which have not or are not now experiencing some type of refugee problem. In our own country thousands of Cuban refugees seek asylum on our shores each year; the plight of the refugees in the Middle East is a factor at the heart of the continuing and serious difficulties there; military action in Southeast Asia creates hundreds of new refugees each week; and in Africa new refugee problems involving many thousands of people continue to arise.

CZECHOSLOVAKIAN REFUGEES

The refugee programs for which we seek appropriations today are those conducted by the Department of State and authorized under the Migration and Refugee Assistance Act of 1962. While this appropriation is requested to provide assistance in a number of divergent refugee problems, at the present time the principal needs of the programs relate to refugees from communism in Europe and in East Asia. Last year when Ambassador Graham Martin appeared before the committee he explained how the Soviet occupation of Czechoslovakia in August 1968, and the general ferment in Eastern European nations had resulted in a large outpouring of refugees into the West. There has been no sbstantial change in this situation up until the present time. Many Czechoslovaks continue to leave their country, joining the thousands already in camps or other substandard facilities awaiting onward migration to countries where they can begin a life of freedom for themselves and their families. Although repressive measures in Czechoslovakia have slowed down their exit, there are still many more refugees from Czechoslovakia than from any other country in Europe. Meanwhile the numbers from other Eastern European countries are increasing. Hence, the problem in Europe in 1970 continues to be both large and acute.

U.S. REFUGEE PROGRAM

We began the year 1969 with over 18,000 refugees receiving assistance from the voluntary agencies working with the U.S. refugee program (USRP). During the year, there was a new influx of almost 35,000 refugees who registered for assistance with the voluntary agencies, bringing the total helped by USRP to over 53,000 during 1969. This was almost double the number of refugees assisted by USRP in 1968. On January 1, 1970, there were almost 29,000 refugees on the USRP caseload representing an increase of more than 10,000 over the number pending on January 1, 1969. Thus, the number of new refugee arrivals was so great that despite the best efforts of the international community to resettle them, the numbers have continued to rise.

EASTERN EUROPEAN REFUGEES

The recent experience with Eastern European refugees demonstrates once again that major refugee problems can develop virtually overnight causing serious political consequences as well as acute human distress. Although we try to appraise the political evidence and attitudes in a given country which may slow down the refugee flow or trigger an additional exodus, predicting the size of future refugee movements is not susceptible to precise determination. In the case of refugees from Eastern Europe, the available evidence strongly suggests that nationals of those countries will continue to leave their homelands and seek refugee status in significant numbers during the remainder of 1970. What the situation may hold after this year is less easy to forecast.

TRANSFER OF FUNDS FROM AID FOR FISCAL YEARS 1969 AND 1970 PROGRAMS

The committee will recall that the sudden increase in demands on our resources in 1969 led to a Presidential determination order transferring $5,706,000 in foreign assistance funds to the appropriation for "Migration and refugee assistance," thereby increasing the total available in 1969 from $5,511,000 to $11,217,000. This amount enabled us to meet the essential requirements for that year. Since we expect the same situation to prevail through calendar year 1970, we were obliged to request and the President has approved another determination order in the amount of $5,752,000, to supplement our basic 1970 appropriation in order to meet our essential needs for this year.

BUDGET REQUEST FOR FISCAL YEAR 1971

Our request for 1971 in the amount of $5,787,000 represents a reduction of $5,537,000 in the total of $11,324,000 we now have available for 1970. This 1971 request was made with the need for economy and other heavy pressures on the national budget uppermost in mind. It necessarily assumes that by 1971 the numbers of Eastern European refugees will have been sharply reduced and that other requirements would be somewhat less. Although it is by no means certain that this will prove to be the case, we do not feel that our forecasts at this time are sufficiently clear to justify asking the Congress for a larger amount in our basic appropriation request. Nevertheless, if the refugee flow continues at anywhere near its present rate, we again will be obliged to seek additional funds in order for the United States to continue to carry a reasonable share of the burden of caring for and resettling these refugees.

EUROPEAN REFUGEE PROGRAMS

Our detailed justification, of which you have copies, presents an explanation of each of the activities to which the funds under this appropriation will be allocated. In Europe, three of the programs covered by the appropriation, the Intergovernmental Committee for European Migration (ICEM), the United Nations High Commissioner for Refugees (UNHCR) and the U.S. refugee program (USRP), all work together in the reception, onward movement

and resettlement of refugees from Eastern Europe. The principal asylum countries of Western Europe, all of which are signatories to the United Nations Convention Relating to the Status of Refugees, generously grant asylum and provide basic care and maintenance to Eastern Europeans who ask for status as political refugees. The United Nations High Commissioner for Refugees, whose paramount function is the legal and political protection of refugees, works closely with these countries to assure compliance with the terms of the convention. His assistance program facilitates the local integration in asylum countries of those unable to emigrate to third countries. The Intergovernmental Committee for European Migration assists the refugees by arranging for their movement to countries of resettlement under economical transportation schemes. The U.S. refugee program, working through contracts with American and international voluntary agencies which also contribute their own funds and efforts to these purposes, helps the refugees toward final resettlement primarily through resettlement support activities on an individual case basis. This is an essential supplement to the support afforded by other sectors of the refugee assistance community.

These three agencies work together as a coordinated team, each providing services vital to the reestablishment process. The cooperative efforts of the UNHCR, USRP, ICEM and the voluntary agencies create an efficient mechanism for maintaining a steady flow of refugees from countries of asylum to their ultimate destinations. This team effort helps prevent the political and economic burdens on the countries of asylum which growing accumulations of refugees would represent. Continued U.S. participation, in terms of money, concern, and leadership, is necessary to keep the present refugee flow moving freely.

As noted in our justification, in addition to his protective function the United Nations High Commissioner provides material assistance to thousands of refugees in Africa and elsewhere where political or other considerations make it unwise for the United States to provide direct assistance, or in fact prevent such direct assistance. The UNHCR thus helps solve refugee problems in developing areas which are substantially beneficial to the interests of the U.S. Government and the cause of peace.

FAR EAST REFUGEE PROGRAM

The Chairman and the committee are well acquainted with the Far East Refugee Program (FERP) for which we are requesting $500,000 for local resettlement programs to assist Chinese refugees in Hong Kong and Macau. In this era of differences and difficulties with the Chinese Communist regime, FERP provides the only method of reaching the Chinese people in any tangible way in order to demonstrate our genuine interest and concern for them as human beings. We believe that the amount requested is the minimum required to support a most effective program to meet that important objective.

ADMINISTRATIVE EXPENSES

We have also requested funds for administrative expenses in the minimum amount needed to manage the various elements of our pro-

gram and to provide adequate support and direction. Also included is a request for our regular annual contribution to the International Committee of the Red Cross (ICRC) authorized by the Congress under Public Law 89–230. This small item in support of the administrative expenses of the ICRC is very important in view of the great assistance which the ICRC has been providing to United States interests through its work in Vietnam, the Middle East, and other troubled areas. Its useful protective function is, of course, of special interest at this time.

Mr. Chairman and members of the committee, I should like to conclude by emphasizing that the activities for which these funds are requested, although modest in comparison to many more prominent essential activities of our Government, are nevertheless of great importance. They obviously provide an expression of the humanitarian concern of the American people which demonstrates to the world that this country continues its traditional role in aiding those who are persecuted or in distress. Also, they serve to ease political problems of international consequence, which in turn helps in our country's continuous efforts to promote peace in troubled areas of the world. If I may be permitted to make a rather special observation, Mr. Chairman, it is that this committee has long recognized that refugee assistance programs serve compassionate humanitarian goals as well as important U.S. national interests. I earnestly solicit your favorable consideration of our request for funds.

Mr. PASSMAN. Thank you very much for your statement, Mr. Sobotka.

JUSTIFICATION MATERIAL

We will now insert the justification material into the record at this point.

(The justification material follows:)

DEPARTMENT OF STATE
MIGRATION AND REFUGEE ASSISTANCE

Appropriation, 1970		$ 5,511,000
Proposed Supplemental for Civilian Pay Act Increases	+	61,000
Adjusted Appropriation, 1970		5,572,000
Proposed Transfer from Foreign Assistance Funds by Presidential Determination	+	5,752,000
Total Availability, 1970		11,324,000
Estimate, 1971		5,787,000
Decrease	-	5,537,000

Program by Activities:	1970 Appropriation 1/	1970 Proposed Presidential Determination	1970 Total	1971	Increase or Decrease	Justification Page
1. Intergovernmental Committee for European Migration	$3,000,000	$ 500,000	$3,500,000	$2,900,000	$- 600,000	5
2. United Nations High Commissioner for Refugees	600,000	400,000	1,000,000	800,000	- 200,000	6
3. Refugees from European Communist Countries	914,000	4,586,000	5,500,000	814,000	-4,686,000	8
4. Refugees from Communist China	300,000	200,000	500,000	500,000		10
5. Administration	708,000	66,000	774,000	723,000	- 51,000	11
6. Contribution to the International Committee of the Red Cross	50,000	-----	50,000	50,000	-----	11
Total Adjusted Appropriation	$5,572,000	$5,752,000	$11,324,000	$5,787,000	$-5,537,000	

1/ Includes proposed supplemental for Civilian Pay Act increases ($61,000).

DEPARTMENT OF STATE
MIGRATION AND REFUGEE ASSISTANCE

FISCAL YEAR 1971

General Narrative Statement

1970 Estimate	1971 Estimate	Difference
$11,324,000	$5,787,000	-$5,537,000

For Fiscal Year 1971, $5,787,000 is requested for programs of assistance to refugees and migrants under the Migration and Refugee Assistance Act of 1962 (Public Law 87-510). Of this amount, $5,014,000 is to remain available until December 31, 1971. This request is to provide funds for United States contributions to the Intergovernmental Committee for European Migration (ICEM), the United Nations High Commissioner for Refugees (UNHCR), and the International Committee of the Red Cross (ICRC); for assistance to refugees from communist countries in Europe and from Communist China and for related administrative costs.

By their very nature, refugee problems are difficult to predict, their exact future dimensions impossible to define. However, the urgency and importance of refugee problems are unmistakably clear both from a humanitarian standpoint and from broad foreign policy considerations. Refugees who flee to countries of asylum to escape persecution and oppression may generate severe political, economic and social problems in these countries. Unless prompt solutions are found to these problems, disillusionment, bitterness and unrest develop among the refugees, providing fertile ground for exploitation, posing a serious challenge to the continuance of sympathetic asylum policies

on the part of the host countries and often becoming an issue of international controversy. In short, such situations are palpable threats to the preservation of peace.

It is equally clear that United States assistance to refugees is an essential contribution to the solution of these highly important and complex problems and thus helps advance vital United States foreign policy objectives in addition to serving humanitarian purposes. In the last twenty-five years, succeeding administrations have proposed and the Congress has provided funds for a number of special as well as long-range programs specifically designed to resolve or to alleviate certain refugee problems in various parts of the world.

Since the August 21, 1968 Soviet invasion of Czechoslovakia, there has been a consistently greater flow of refugees from Eastern European countries. Since that date, some 53,000 refugees have registered for assistance under the United States Refugee Program (USRP). Further, refugee problems in other areas of the world, primarily in Africa and Asia, continue to develop because of prevailing political ferment.

The critical world situation today offers little reason to believe that the flow of refugees will be reduced in the near future. On the contrary, all indications are that refugee problems may become worse. As a consequence, the Department of State will face a serious and continuing need for refugee programs of broad dimensions for at least the next several years.

The rapid expansion of world refugee problems since late 1968 has placed severe strains upon the Migration and Refugee Assistance budget since that time. On February 17, 1969, under the authority of Section 2(c) of the Migration and Refugee Assistance Act of 1962, the President approved a Determination Order for CY 1969 transferring Foreign Assistance funds to the Department of State in the amount of $5,706,000

to meet the unexpected and urgent refugee and migration needs arising in connection with assistance to refugees from Czechoslovakia and other communist countries in Europe, bringing the total amount available to $11,217,000. For CY 1970 the President has been asked to approve a Determination Order in the amount of $5,752,000 in order to bring the total amount available to $11,324,000.

The request for 1971 is for $5,787,000, or a decrease of $5,537,000 from total funds expected to be available this year. The request does not provide for financing a continued heavy flow of refugees from Eastern Europe during 1971. Although all present indications are that the refugee flow will continue at a high level in 1971, it is not possible at this time to forecast accurately the number of these people who will require assistance in 1971. Because of this and in light of other pressures on the national budget, the decisions regarding the level of financial support required by the various assistance programs and the sources of funds to provide that support have been deferred until more definite information on the actual numbers of refugees becomes available.

The estimated minimum requirements for each segment of the program covered by the appropriation were carefully considered in arriving at the request for $5,787,000. However, in view of the rapid and volatile nature of refugee problems, it may be necessary to adjust the estimated amounts for each program activity within the limits of the total appropriation in order to meet changing requirements and priorities.

Three of the programs covered by this appropriation, namely, the Intergovernmental Committee for European Migration (ICEM), the United Nations High Commissioner for Refugees (UNHCR), and the United States Refugee Program (USRP), work together in consonance, coordinating their efforts and each performing an important function in the reestablishment of the refugees. Through the cooperative efforts of ICEM, UNHCR, USRP and the private voluntary agencies, an efficient pattern of operations has been established which supplements the assistance activities of asylum countries and helps maintain a steady flow of refugees through the countries of asylum to their ultimate destinations.

The following are the program segments for which the requested appropriation is needed:

1. INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION (ICEM)

It is proposed that for 1971 the United States contribute $2,900,000 to the Intergovernmental Committee for European Migration (ICEM), a reduction of $600,000 from our contribution in 1970.

ICEM, an international organization outside the aegis of the United Nations, was organized in 1951 on the initiative of the United States Congress to move refugees and migrants out of Europe. This organization, comprised of 31 non-communist member governments, has demonstrated its value to the United States and other countries by moving out of war-torn and reconstructed Europe over a million and a half national migrants and refugees who were unable to find a livelihood in Europe or who otherwise faced the necessity of emigrating to new homes.

ICEM is an essential component in the complex of agencies and programs necessary to resettle refugees and is the best equipped organization for the large-scale movement of refugees and migrants. Its assistance and effectiveness in transporting refugees who have fled Eastern European countries make it possible for the Western European countries which have given them asylum to take in additional refugees who continue to come in an increasing flow. United States foreign policy interests are directly served by ICEM's activities in keeping the doors of asylum open in Western European countries. ICEM has recently demonstrated its unique importance in moving efficiently and effectively the many thousands of Czechoslovak and other Eastern European refugees needing transport to countries overseas.

ICEM also provides trained and skilled immigrants for countries in need of manpower, such as Australia and Latin America, where they contribute to needed economic development. Further, ICEM assists Latin American countries in developing their individual immigration organizations and establishing more effective immigration procedures.

ICEM arranges air and sea transportation for migrants and refugees under special arrangements which are more economical than normal transportation facilities. Special services at both ends of the movements are provided, including pre-selection, processing, medical examinations and the embarkation of refugees and migrants in Europe and arrangements for their reception and placement in countries of immigration. To finance transportation costs, ICEM combines the contributions of the migrants and refugees, of the emigration and immigration countries, and of interested voluntary agencies.

The reduction to $2,900,000 for the proposed contribution to ICEM for 1971 is based on the preliminary assumption that ICEM movements will drop drastically to somewhat less than 35,000 refugees in 1971. This would involve 20,000 fewer movements in 1971 than the 55,000 refugees it is estimated ICEM will move in 1970.

In 1969, ICEM was confronted by a severe budget deficit because of a rapidly increasing number of refugee movements. Through action by the Congress that year in making $844,000 originally earmarked for Cuban refugees available to the Department for other refugee purposes, it was possible for the Department to increase the U.S. contribution to $3,000,000, and the President's Determination Order permitted a further increase of $550,000. With these increases combined with increased contributions from other governments, ICEM was able to finance its operations for 1969. If the pending Presidential Determination Order is approved, the Department believes it will be possible for the U.S. to make a contribution of $3,500,000 in 1970. While it is still uncertain as to what the exact refugee movement in 1971 is likely to be, if it should develop that ICEM will move more than 35,000 refugees in 1971, it may be necessary to provide for additional funding to cover a fair United States proportion of the costs of the additional movements.

2. UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES (UNHCR)

It is proposed that in 1971 the United States contribution to the United Nations High Commissioner for Refugees (UNHCR) be $800,000, a reduction of $200,000 from the

planned contribution of $1,000,000 for 1970.

The UNHCR, which constitutes one of the essential components in the mechanism for assistance to refugees, is a valuable instrument for providing international protection and securing adequate legal and political status for refugees throughout the world, and for promoting permanent solutions for refugee problems. Unassimilated refugees produce problems which affect adversely the economic and often the political stability of asylum countries and in some cases involve tensions which threaten the preservation of peace. UNHCR assistance programs, by reestablishing refugees, help relieve these problems, encourage liberal asylum policies and reflect the humanitarianism of democratic societies.

The international protection function of the UNHCR, in addition to providing guarantees against forceable repatriation, seeks to secure for refugees those legal, political, economic and social rights within asylum countries or third countries which are essential to the reestablishment of refugees on a self-supporting basis. The UNHCR material assistance program in Europe, in promoting the local integration of refugees who cannot emigrate, is an essential supplement to the USRP and ICEM programs which concentrate on external resettlement. Major emphasis in the UNHCR assistance program is directed to problems arising out of political ferment in Africa, as well as to refugees in Asia, Latin America and elsewhere.

The assistance programs of the UNHCR relate directly and significantly to United States interests because they help in the solution of refugee problems where it would be difficult or politically unwise for the United States to provide direct assistance. The role of the UNHCR in Africa has been most useful in this regard, since rapidly changing situations there often demand immediate response.

It is considered especially important that the United States show continued support for the UNHCR at this particular time. The United States has acceded to the Protocol Relating to the Status of Refugees. In becoming a party to this international treaty, the United States reaffirmed its support of the overall program of the UNHCR. It is thus essential that we provide an appropriate financial contribution to the UNHCR

assistance program to back up our moral support for his important functions and to help provide assistance to refugees in programs which promote peace and are advantageous to U.S. political interests.

While the United States contribution is limited to a maximum of 33-1/3% of the total contributions of all governments, the proposed contribution for 1971 is expected to be approximately 19% and possibly even lower. Under the Presidential Determination Order, the Department was able to increase its contribution to $800,000 or about 20% in 1969. Under the proposed Determination Order we hope to be able to increase the contribution in 1970 to $1,000,000 or approximately 23%. The U.S. Government's contribution to the UNHCR is considerably below the percentage of its contributions to other United Nations organizations.

3. REFUGEES FROM EUROPEAN COMMUNIST COUNTRIES

It is proposed that in 1971, $814,000 be provided for the United States Refugee Program (USRP), a reduction of $4,686,000 from the programmed level of $5,500,000 for 1970.

Since 1952 the United States has provided assistance to refugees from communist countries in Europe through this program. USRP provides direct assistance to these refugees by supplementing the assistance given by asylum countries. This is accomplished through contracts with American and international voluntary agencies for the provision of such services as initial reception, interim care and maintenance and permanent re-establishment, mainly by overseas resettlement, but also by local integration in Europe.

The continued value of this program to the political interests of the U.S. could not be more clearly demonstrated than by the present situation in Eastern Europe which has caused a large number of people to leave Czechoslovakia and other Eastern Europeans to seek asylum as refugees in the free world. As in the time of the Hungarian revolt in 1956, USRP has been available to assist the countries of asylum and the

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voluntary agencies who bear the brunt of the costs of initial assistance to the new groups of refugees.

There has been no letdown in the exodus of refugees from Eastern Europe. On January 1, 1969 there were 18,644 refugees on the USRP caseload. New arrivals who registered during the year totalled 34,768. Therefore, the total number of refugees thus assisted in 1969 was in excess of 53,000. The pending USRP caseload on January 1, 1970 was 28,680.

Based on conditions in Eastern European countries, there is every reason to assume that the heavy influx will continue during 1970 and 1971. With respect to the year 1970, it is estimated that there will be 30,000 new arrivals and that the total number of refugees processed by USRP during the year will be in excess of 55,000. Based on this projection and assuming a per capita cost of $100, a total of approximately $5,500,000 would be required in 1970. The currently pending Determination Order would, if approved, provide $4,586,000 in addition to $914,000 in the regular 1970 appropriation; this amount should enable us to meet our basic 1970 requirements.

The situation in Czechoslovakia is one of gradually increasing Soviet pressure with added restrictions on the population. It is impossible to predict just what effect these conditions will have on the refugee flow in 1971, but there very likely will be a substantial number who will continue to leave Czechoslovakia. At the same time the same pressures and tensions which are evident in Czechoslovakia are having their effect on Hungary, Poland, Romania and other Eastern European countries; the outflow from them has increased and it is quite possible that the total number of new refugees from these countries may be larger than present estimates indicate.

The present request, in the absence of more definitive information, assumes a sharp drop in the number of refugees who will require assistance in 1971 and a stabilization of the refugee situation at a level comparable to that of several years ago. However, as stated, there is no certainty that this will happen and the Department may find it necessary to seek more funds in 1971 in order to meet essential USRP requirements.

4. REFUGEES FROM COMMUNIST CHINA

For 1971 it is planned to continue the Far East Refugee Program (FERP) at the same level as in last year, or $500,000, to provide assistance to refugees from Communist China in Hong Kong and Macau. This program is one of the few effective means that the United States has to demonstrate the continuation of the historic friendship and humanitarian concern of the American people toward the Chinese people. It also shows the Chinese people and other Asians that the United States is interested in Asian refugees and does not discriminate against them.

In spite of Hong Kong's outward appearance of prosperity, many people - predominantly refugees - continue to live in poverty and without the skills to permit them to make a decent living for themselves and their families. While the Hong Kong Government has made great strides in meeting the needs generated by the flow of refugees into the Colony since 1948, many urgent refugee requirements remain, including facilities for housing new arrivals, counselling in job placement and social problems, vocational training, day nurseries, youth welfare, supplementary feeding programs, community development, and specialized medical treatment. We believe that the FERP, in concert with the voluntary agencies, must continue to develop appropriate facilities in these important and conspicuous areas, both to help refugees to become assimilated and to demonstrate the United States' concern.

Other governments are also providing assistance to Chinese refugees. The German Federal Republic, for instance, has made a grant equivalent to U.S. $750,000 to be expended on a single project in 1970-71.

Although the number of refugees leaving China has not appreciably changed over the past few years, the unsettled conditions remaining on the mainland in the wake of the "cultural revolution" could result in a dramatic increase in the refugee flow. However, the Department's estimate for 1971 is based on the requirements of conducting an effective program with sufficient impact under the currently prevailing situation,

to include both continuing services to individual refugees plus a few major permanent projects. A program of any lower level would not meet U.S. objectives and might be interpreted as a slackening of U.S. interest in the welfare of the distressed people of the Far East.

5. ADMINISTRATIVE EXPENSES

For 1971, $723,000 is requested for administrative expenses, a reduction of $51,000 below the $774,000 programmed for this purpose in 1970. This amount represents the bare minimum needed to meet essential management and support requirements for 1971.

6. INTERNATIONAL COMMITTEE OF THE RED CROSS (ICRC)

Since 1966, when Congress passed Public Law 89-230, the United States has been making contributions of $50,000 per year to the International Committee of the Red Cross (ICRC) and it is considered important that the United States continue to contribute this amount to the ICRC in 1971. No increase is proposed for the contribution to the International Committee of the Red Cross at this time since the present annual contribution of $50,000 is the limit established by the Congress in the authorization under Public Law 89-230.

The International Committee of the Red Cross, which was founded in 1863, is the mother organization of all Red Cross Societies. It is formally recognized in the Geneva Conventions of 1949 as the agency to supervise the application of the provisions of the Conventions to which the United States is a party. These Conventions relate to the amelioration of the conditions of the wounded, sick and shipwrecked members of the Armed Forces, the treatment of prisoners of war and the protection of civilian persons in the time of war.

The ICRC has over the years been of great assistance to the United States Government, the United States Armed Forces and American civilians. Until recently, the

ICRC was a principal factor in the provision of relief and assistance to victims of the conflict in Nigeria. It also is endeavoring to promote human protection and welfare services for American prisoners of war and civilians detained by North Vietnam and by the Communist Pathet Lao in Laos. The ICRC is also involved in many protection and relief activities in trouble spots throughout the world, including the Middle East, Cyprus, and the Congo, and for Tibetan refugees in Nepal. The ICRC also maintains central tracing services in Geneva and Germany, both of which maintain constant searches for POWs and persons missing in action.

INCREASED FUNDS REQUESTED FOR FISCAL 1971

Mr. PASSMAN. Your 1971 estimate is $5,787,000, against the 1970 appropriation of $5,511,000. This is an increase of $276,000, is that correct sir?

Mr. SOBOTKA. Yes, sir.

FISCAL YEAR 1970 SUPPLEMENTAL ESTIMATE FOR PAY ACT COST

Mr. PASSMAN. But this does not include the $61,000 that will be in a supplemental request to pay for the Pay Act costs, is that correct?

Mr. SOBOTKA. That is correct.

The $61,000 applies to the 1970 appropriation and will not be an addition to the 1971 request of $5,787,000.

Mr. PASSMAN. We may well be handling a supplemental bill that will not be enacted until near the end of the fiscal year.

We may actually be into fiscal 1971 before you get your supplemental appropriation for Pay Act costs for fiscal 1970. Is it necessary to handle it as a supplemental appropriation rather than making it a part of your regular bill?

Mr. SOBOTKA. Mr. Chairman, as I understand it, the State Department is submitting all items connected with the pay increase to be included in one overall 1970 Government-wide supplemental rather than breaking it up by separate programs.

Mr. PASSMAN. So this $61,000 will be carried in the all-inclusive bill.

Mr. SOBOTKA. Yes, sir.

TRANSFER OF FUNDS FROM AID FOR FISCAL 1970 PROGRAM

Mr. PASSMAN. I notice on page 1 of the justifications that $5,511,000 was appropriated for fiscal 1970, but this is only part of the funds allocated to the program, is that correct?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Plainly stated, an additional $5,752,000 is proposed to be transferred from AID, thus making a total of $11,263,000 available for this program, is that correct, sir?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Has this transfer taken place?

Mr. SOBOTKA. Yes, sir. Since our justification was written, at which that time the transfer was shown as tentative, the President has signed the determination order transferring the funds.

Mr. PASSMAN. Why is it necessary for these additional funds to be transferred to this program?

Mr. SOBOTKA. Mr. Chairman, as we testified last year we were not able at the time that the 1970 budget was prepared to project clearly the size of the refugee problems, particularly the one in Europe. We indicated at that time that it might be necessary, if the flow of refugees continued at a high rate, to proceed to request additional funds in some form.

Mr. PASSMAN. When did you make that statement to the committee?

Mr. SOBOTKA. I believe it was in April of last year, Mr. Chairman, when we testified for our 1970 appropriation.

Mr. PASSMAN. When did the influx take place?

Mr. SOBOTKA. The influx continued all through 1969, and is still continuing, sir.

TRANSFER OF FUNDS FROM AID FOR FISCAL 1969 PROGRAM

Mr. PASSMAN. In other words, this program in fiscal 1970 will be about twice the cost of the same program for fiscal 1969, is that correct?

Mr. SOBOTKA. No, sir.

Mr. PASSMAN. Then what did you transfer out of AID's appropriations to this program in fiscal 1969?

Mr. SOBOTKA. In fiscal 1969, we transferred $5,706,000.

Mr. PASSMAN. In addition to your regular appropriation?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Knowing that to be true, why didn't you include a similar amount in your request for fiscal 1970?

Mr. SOBOTKA. Last year at the time we submitted our 1970 budget request, it was considered by the administration that it was still too early to know what the long-range effects of the Czechoslovak situation would be, and that it would be better to delay a request for more funds until it became clear that the number of refugees was going to be as high as we expected it might be.

Mr. PASSMAN. But you had experience from the previous year of having to double the size of your program, and you had no indication that you would have a slackening off of the influx, is that correct?

Mr. SOBOTKA. That is correct.

Mr. PASSMAN. But your fiscal 1970 program is funded from two different places. This causes me some concern because it would appear that you had appropriated in fiscal 1970 $5,511,000, whereas you are going to have a program of over $11 million. Undoubtedly your experience in fiscal 1969 would lead you to believe that you would have about the same size program as fiscal 1970, is that not right?

Mr. SOBOTKA. Yes, sir. We have projected through 1970 that there would be a continuation of this program level.

Mr. PASSMAN. Then why did you make about the same request for your regular 1970 appropriation that you made the previous year with that experience in your records?

Mr. SOBOTKA. We did ask originally of the Bureau of the Budget last August, when we were preparing our original preparation for over $11,500,000.

Mr. PASSMAN. You thought that was about what you would need?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. The Budget Bureau cut it just about in two and permitted a transfer of funds out of AID about equivalent to what you previously asked for.

Mr. SOBOTKA. The request we prepared last August, Mr. Chairman, was in connection with this 1971 request we have here now. It was the administration's decision that in view of the very tight budget situation that prevailed, and because we could not be absolutely certain that by 1971 the numbers of refugees would be as large——

SOURCE OF AID FUNDS AVAILABLE FOR TRANSFER

Mr. PASSMAN. I am talking about fiscal 1970. You had the experience in fiscal 1969 and you anticipated the same workload for fiscal 1970. The point I am trying to establish is that we have always overfunded AID, and I do not know how many times we are going to run

into this during the hearings this year that AID had so much extra money that they could give $5 million here and $10 million there. What particular part of AID's appropriation is this additional money coming from?

Mr. SOBOTKA. I do not know precisely which part it was drawn from this year. We were not informed of that. I do not know whether it was contingency funds or some other funds they had. I will supply that information for the record.

(The information follows:)

We are informed by AID that the $5,752,000 transferred to the Migration and Refugee assistance" appropriation as authorized by Presidential determination order No. 70–2 dated February 11, 1970, came from the contingency fund account. The decision to make the transfer from this particular account was made by AID, which determined that the total funds available for use in fiscal 1970, including new appropriations, carryover and recoveries were sufficient to cover a transfer of this amount.

PROGRAM FOR 1971

Mr. PASSMAN. Then to drop the curtain on this particular line of questioning, based upon your 1969 experience, you anticipated this need in fiscal 1970, but you had to get the additional funds through a transfer of funds from AID. Are you anticipating the same thing to happen in fiscal 1971?

Mr. SOBOTKA. Mr. Chairman, we fear that there may be a similar situation in 1971, but it is extremely difficult in the present climate to be sure of that. There has been some drop off in the number of new refugees registering. Part of this perhaps can be attributed to the fact that particularly in Czechoslovakia, the Government has introduced more repressive measures which has made it difficult for people to get out. Part of it may be seasonal because there is always a drop off in new refugees during the winter.

If the flow should continue in 1971 at anywhere near the present rate we would need to obtain additional funds again in 1971, yes, sir.

Mr. PASSMAN. This is rather unusual. If all agencies were to operate like this, with this degree of uncertainty, we would have a hard time appropriating enough funds to run this Government efficiently.

Mr. SOBOTKA. Yes, sir; I think that would be correct, although the flow of refugees is very difficult to predict.

SITUATION IN EUROPE

Mr. PASSMAN. Isn't our contribution more or less a prestige matter anyway? The Europeans are waxing fat with wealth, and we are just keeping our name in the pot to let the Europeans know we are cooperating. Isn't that about the story?

Mr. SOBOTKA. Mr. Chairman, actually I think the U.S. contribution to this is very helpful and very effective and that it goes beyond the question of prestige.

Mr. PASSMAN. The European nations are financially able, if they want to, to fund this program, are they not?

Mr. SOBOTKA. The European nations are doing a great deal.

Mr. PASSMAN. That is not my question, Mr. Secretary. My question is that many of the European nations are waxing fat with wealth and

they could, if they wanted to, fund this program out of their resources, could they not?

Mr. SOBOTKA. They could supply the assistance for the refugees in their own countries, but I do not believe they would be willing to carry the cost of sending them onward to other countries.

Mr. PASSMAN. You are very fair. I am not talking about their being willing. I am talking about their being able to fund this program out of their resources on account of the great prosperity most of them are enjoying.

Mr. SOBOTKA. One country which would have difficulty in this——

Mr. PASSMAN. I used it in the plural—countries.

Mr. SOBOTKA. One country is Austria, which is already putting a very fair share of its resources into this and yet they bear the largest part of the Eastern European refugee burden.

Mr. PASSMAN. It is a very simple question, and I made it all-inclusive. The European countries with the tremendous prosperity they are enjoying—most of them—could, if they should decide to do so, absorb out of their own economy this small amount for these refugee programs, could they not?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Thank you very much. That is the question I wanted answered.

The most permanent thing in Government is one of these temporary programs. I have never known of one to be abolished yet. Do you know of any?

Mr. SOBOTKA. Not many, sir.

INCREASE REQUESTED FOR FISCAL 1971

Mr. PASSMAN. It is a good point. They just do not abolish a program of this type. I am not blaming you.

There is an increase of $276,000 for fiscal 1971 over fiscal 1970 in appropriated funds. Give us a brief summary why this increase is needed, Mr. Secretary.

REFUGEES FROM COMMUNIST CHINA

Mr. SOBOTKA. $200,000 of this increase, Mr. Chairman, is to fund the program for assisting refugees from Communist China at the level of $500,000. Previously this had been held in the regular appropriation to $300,000. The balance is strictly in connection with mandatory pay increases.

Mr. PASSMAN. I want the record to show that I am very much in sympathy with some of these refugee and escapee programs. I believe almost without exception in prior years this committee has recommended the full amount of the budget requested for anything connected with migration, escapee, and refugee programs.

I think possibly in the Far East it has been worth more to our country than in most places. For example, the John F. Kennedy Spastic Children's Center is something that people can see and recognize as being a contribution from America. I think the hospitals and the small amount of money we have given to leprosariums has meant a great deal to us. I think the people recognize that we are helping. They can

see proof of it and it is a good investment. I am not sure there is any kind of a show window of the type in Europe.

Off the record.

(Discussion off the record.)

EIGHTEEN MONTH AVAILABILITY FOR FISCAL YEAR 1971 FUNDS

Mr. PASSMAN. Mr. Secretary, you are requesting $5,014,000 of the total request to be made available until December 31, 1971. I would assume this is necessary because some of the organizations, and for that matter, some of the countries operate their fiscal years on a calendar year basis, is that correct, sir?

Mr. SOBOTKA. Yes, sir.

INCREASING REFUGEE PROBLEMS

Mr. PASSMAN. On page 3 of the justification you state that from all indications the refugee problems may become worse. Would you care to elaborate on that statement briefly, Mr. Secretary?

Mr. SOBOTKA. Mr. Chairman, we firmly wish that refugee problems would be resolved and disappear, but conditions in the world seem to be at a state where this is not possible.

We make some progress and help cool down some problems, and unexpectedly in some areas other problems erupt. Therefore, there is no indication that we will not have a larger problem than we now have. I do not want to be too specific about predicting where these problems may occur because this is a very difficult matter. But we could, for example, face a serious problem in the Far East with regard to Hong Kong refugees, depending entirely on the internal situation in China which continues to be in some ferment.

Mr. PASSMAN. What part of the total problem will be in that part of the world?

Mr. SOBOTKA. Again we would not know.

Mr. PASSMAN. I am talking about appropriations.

Mr. SOBOTKA. There is a half million dollars of this appropriation provided for the Far East refugee program.

Mr. PASSMAN. Most of the program is Public Law 480 commodities is it not?

Mr. SOBOTKA. A very substantial amount, yes, sir.

ANALYSIS AND DISTRIBUTION OF 1971 FUND REQUEST

Mr. PASSMAN. Mr. Secretary, if you do not have some of this information readily available, insert it in the record. How much of the $5,787,000 budget estimate includes either a supplemental estimate or a transfer of funds out of some other over-funded agency?

How much of the estimate for fiscal 1971 will be spent in fiscal 1971, and how much will be spent after June 30, 1971?

Mr. SOBOTKA. I will insert that in the record.

(The information follows:)

None of the $5,787,000 appropriation request will come from either a supplemental appropriation or by transfer from other agencies.

It is estimated that $4,354,000 of the 1971 request will be expended in fiscal 1971 and $1,433,000 will be spent after June 30, 1971.

Intergovernmental Committee for European Migration

Mr. Passman. The Intergovernmental Committee for European Migration is the first program.

The fiscal 1971 estimate is $2,900,000, which is $600,000 below the proposed program level for fiscal 1970, is that correct?

Mr. Sobotka. Yes, sir.

MEMBER COUNTRIES OF ICEM

Mr. Passman. Provide for the record a list of the 31 member governments and the amount each contributes to this organization.

Mr. Sobotka. Yes, sir.

(The information follows:)

GOVERNMENTAL CONTRIBUTIONS TO ICEM IN CALENDAR YEAR 1969

Country	Amount	Percent of total	Country	Amount	Percent of total
Argentina	$116,014	0.59	Luxembourg	6,355	.03
Australia	9,543,498	48.25	Malta	291,092	1.47
Austria	82,145	.42	Netherlands	811,541	4.10
Belgium	201,754	1.02	New Zealand [1]	33,820	.17
Bolivia	3,188	.02	Nicaragua	3,188	.02
Brazil	124,756	.63	Norway	29,011	.15
Canada [1]	13,750	.07	Panama	4,038	.02
Chile	27,298	.14	Paraguay	3,188	.02
Colombia	28,779	.15	Peru	6,375	.03
Costa Rica	3,955	.02	South Africa	1,819,460	9.19
Denmark	24,324	.12	Spain	378,080	1.90
Dominican Republic	3,188	.02	Sweden [1]	76,400	.39
Ecuador	19,115	.10	Switzerland	111,259	.55
El Salvador	3,188	.02	United States [2]	3,550,000	17.95
Germany	518,678	2.62	Uruguay	3,188	.02
Greece	476,981	2.41	Vatican [1]	10,000	.05
Honduras	3,355	.02			
Israel	799,900	4.04	Total	19,730,867	99.75
Italy	600,006	3.03			

[1] Not member of ICEM.
[2] Including $200,000 in Israeli pounds.

NUMBERS OF REFUGEES HANDLED BY ICEM

Mr. Passman. Provide for the record a table showing the number of refugees and migrants handled by ICEM for each month in calendar year 1969.

Mr. Sobotka. I will be glad to supply that.

(The information follows:)

MONTHLY TOTALS OF REFUGEES AND NATIONAL MIGRANTS MOVED BY ICEM DURING 1969

	Refugees	National migrants	Total
1969:			
January	2,978	1,978	4,956
February	4,543	2,920	7,463
March	4,434	2,158	6,592
April	4,227	3,457	7,684
May	4,201	1,703	5,904
June	4,546	3,357	7,903
July	5,353	2,356	7,709
August	4,835	1,738	6,573
September	6,564	2,652	9,216
October	6,518	2,967	9,485
November	6,161	2,426	8,587
December	5,003	2,453	7,456
Total	59,363	30,165	89,528

Mr. PASSMAN. You state on page 6 of the justifications that you anticipate refugee movements in 1971 will drop drastically from 55,000 in 1970 to 35,000 in 1971. This would indicate that you would need less money and not more; would it not?

Mr. SOBOTKA. Mr. Chairman, as far as ICEM is concerned, we have proposed a reduction of $600,000.

Mr. PASSMAN. I know, but that is a very small reduction. If you look at the mathematics, the $600,000 reduction to $2,900,000, and if the number of refugees is expected to drop by 20,000, that is about a one-third decrease. So it would appear that $1.1 million reduction would be more in keeping with the drop in workload; would it not?

Mr. SOBOTKA. Mr. Chairman, there are certain basic expenses of ICEM that are not related to the number of individual movements. We have over a period of time developed a figure of around $3 million as the amount that is sufficient to cover these basic expenses, plus a normal flow of refugees of around 35,000, or a little less.

Mr. PASSMAN. Housekeeping expenses takes a good part of it, is that the simple answer?

Mr. SOBOTKA. No, sir; housekeeping takes a relatively small percentage of the total ICEM budget. There are some other programs in ICEM which are not entirely related to movements, which involve the preparation of people for resettlement, the reception of people at the other end, and you have to provide certain minimum continuing facilities for these, which go on regardless of fluctuations in the numbers of movements. We increased our contribution to ICEM above $3 million in view of the large increase in the number of movements in 1969 and 1970.

We increased it about $500,000 because that was our share of the increased movements. Other governments have to share in the cost of the increased movements.

Mr. PASSMAN. If you got to the point where you did not have any refugees, you are saying you would still have certain expenses that will continue on into the future.

Mr. SOBOTKA. If it got down to an irreducible minimum, you would have to consider whether ICEM is a necessary organization.

FOLLOWUP PROCEDURE FOR ICEM REFUGEES

Mr. PASSMAN. How long do you follow the refugees and migrants after you train them and send them to another country?

Mr. SOBOTKA. The ICEM organization keeps fairly good touch with people initially, particularly those who are in what they call the selected migrant group.

Mr. PASSMAN. After you train them, move them on, or relocate them in a permanent job, does your responsibility stop?

Mr. SOBOTKA. Yes, sir; but the U.S. Government does not do this directly in any event.

TRAINING AND LOCATION OF ICEM REFUGEES

Mr. PASSMAN. I know we do not do it directly. I am talking about the organization and we are a part of it. I have to speak about it as if it were the United States. I suspect that we are indirectly putting

up some of the other countries contribution. I would have to look at the list to see whether or not we are putting up ours and a part of theirs, too. It works that way in a lot of programs.

It was stated that ICEM provides trained and skilled immigrants to countries in need of skilled manpower such as Australia and Latin America. Isn't there a tremendous unemployment situation in most Latin American countries?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Wouldn't it be a lot better to train the native Latin Americans than it would to train other people and send them to Latin America.

Mr. SOBOTKA. Mr. Chairman, the ICEM selected migration program is to provide quickly a high level of skills.

Mr. PASSMAN. But you do not take them out subsequently. If you put a man in a Latin American country that is an engineer and that country later trains an engineer, you do not send this man back to Europe because they have an engineer to take his place?

Mr. SOBOTKA. No, sir, these are people who want to go to Latin America to spend their lives there, and have made that choice in immigrating as either surplus to the needs of their own country or because they are refugees who need a place to go.

Mr. PASSMAN. We have a high degree of population shift in this country, do we not?

You live in New York and you want to locate in California, or you move from Texas to Louisiana.

Isn't that the kind of game they are playing?

Aren't you taking refugees from countries where they should not be any more unhappy than some of the people that are staying in those countries, other than they have an ambition to travel and this is a good way to do it?

Mr. SOBOTKA. Mr. Chairman, there may be some refugees who fall into that category, but most of these refugees, we believe sincerely, leave because they are opposed to the regime.

Mr. PASSMAN. They have a different philosophy?

Mr. SOBOTKA. Yes, sir. They are more freedom and democratic oriented. This is developing particularly since they have had some taste of freedom.

Mr. PASSMAN. This is an indirect interference with a sovereign country's business. Isn't that pretty well stated?

Mr. SOBOTKA. You mean in our case?

Mr. PASSMAN. Yes, in our case. An indirect interference with the sovereign nation's business, regardless of its philosophy.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. From how many countries in Europe do you receive refugees and escapees?

Mr. SOBOTKA. Most of the East European countries. That is Czechoslovakia, Hungary, Poland, Bulgaria, Albania, Rumania, and a few from the U.S.S.R.

ADMINISTRATIVE BUDGET FOR 1969

Mr. PASSMAN. Please provide for the record a copy of the administrative budget for ICEM for the last calendar year.

(The information follows:)

ICEM administrative budget for 1969 (summary) (revised Oct. 20, 1969)

Staff costs:	
(a) Salaries (of ICEM officials and local employees at headquarters in Geneva and at 12 field missions)	$1,627,800
(b) Other staff cost (such as post and family allowances, medical insurance plan, home leave, provident fund, etc.)	494,150
Rental, repair and maintenance of facilities	101,500
Other administrative cost (such as for purchase, rental and maintenance of supplies and equipment; contractual services; communications costs, travel, etc.)	196,400
Costs of sessions of ICEM Council, executive committee and subcommittee on budget and finance (such as salaries for temporary staff, rental of space and equipment, issuance of conference documents, etc.)	70,000
	2,489,850

United Nations High Commissioner for Refugees

Mr. Passman. Mr. Secretary, the next program is the United Nations High Commissioner for Refugees. For fiscal 1971 the estimate is $800,000, a reduction of $200,000 from the proposed 1970 level; is that correct?

Mr. Sobotka. Yes, sir.

Reduction for fiscal 1971

Mr. Passman. Has there been some curtailment in the activity of the High Commissioner's activities, or is this an economy move? If so, we want to commend you, but we would like to know the reason for the decrease.

Mr. Sobotka. Mr. Chairman, the $800,000 proposed for 1971 is considered the appropriate level at this time as far as we can project the total United Nations High Commissioner's program in 1971.

Mr. Passman. The question would be, has he reduced his activity?

Mr. Sobotka. He has not gotten a program specifically outlined for 1971 at present. His 1970 program is expected to increase somewhat over previous years, largely due to problems in Africa. But at the same time we are hopeful that some of the problems with which he is dealing will have been resolved by 1971 and that his total program can be reduced.

Mr. Passman. I want to commend you. I think it is a great thing. I was trying to find out why, because we could pass it on to some of the other agencies. He is going to have a lower level of activity, then, is he not?

Mr. Sobotka. We expect that it may be lower, yes, sir.

(Discussion off the record.)

Mr. Passman. I want to commend you, Mr. Secretary, or those that may be responsible for indicating the U.N. High Commissioner for refugee activity, or our share for fiscal 1971, will be $200,000 less than the 1970 level. This is brought about, it is not, by the fact that some of the other nations are increasing their contribution?

Mr. Sobotka. Yes, sir.

Mr. PASSMAN. Will you see if you cannot apply this to the entire program? Then you may not need this additional $5 million you are thinking about at this time. That is a good thought, is it not?

Mr. SOBOTKA. Thank you, Mr. Chairman. We will continue our efforts to encourage more contributions from other governments as we do in all of the international organizations.

Mr. PASSMAN. But the facts are that in some areas you are asking for more money. Some of the European nations are waxing fat with wealth and have been able to increase their contribution to this particular fund. Since this is all in the same ballpark it would appear to me that they should be able to increase their contribution to all the other organizations making up the overall program. That is the point I am trying to establish. If we want to face up to the cold realities of life, we still have a degree of inflation that is causing the administration a lot of worry. We also know that if we had not had these fiscal restraints that President Nixon instituted the past year that inflation would be running about 13 percent and not five.

Do you get the point?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. It is a question of helping the President, and others who are interested, and not penalizing the American people, to bring inflation under control. Every time we can save a dollar we are making some contribution to the necessary program on which this administration is working so hard. I am completely nonpartisan about this. As a former business man and as a member of the Committee on Appropriations, I realize that if we had not slowed down some of these Great Society programs, that in all probability inflation would be running about 13 percent. It is pretty hard to get over to most Americans that by these restraints you are hurting only about 5 million Americans. Without these fiscal restraints you are hurting about 86 million Americans. Have you ever thought of it that way?

MEMBER COUNTRIES OF UNHCR AND CONTRIBUTIONS, 1968, 1969, 1970

I am talking as an American and not as a Democrat. I think it is absolutely necessary to bring these spending programs under control. If you neglect them for too long, these little dime and nickel programs finally build up to great big programs, That is why this committee is interested in saving $100 if we can. Would you provide for the record a list of the countries that contribute and the amount that each contributes to this particular program? If you will, give it to us for calendar years 1968, 1969 and 1970.

Mr. SOBOTKA. Yes, sir.

(The information follows:)

GOVERNMENT CONTRIBUTIONS AND PLEDGES TO THE UNHCR PROGRAM 1968–70

Country	1968	1969	1970[1]
Abu Dhabi	$6,269	$10,000	----
Algeria	7,000	7,000	----
Argentina	----	12,000	$12,000
Australia	150,000	195,125	196,000
Austria	24,000	24,000	30,000
Belgium	180,000	200,000	200,000
Botswana	500	500	1,000
Brazil	10,000	2,000	----
Burundi	----	1,000	1,000
Cambodia	----	1,000	----
Cameroon	408	----	----
Canada	324,074	370,370	370,370
Central African Republic	1,800	1,633	----
Chile	----	905	----
China (Republic of)	7,500	7,500	7,500
Colombia	1,000	1,000	----
Congo (Brazzaville)	----	----	1,000
Congo (Kinshasa)	1,000	----	----
Cyprus	240	480	480
Dahomey	500	----	----
Denmark	205,333	230,167	253,333
Dominican Republic	1,000	----	----
Dubai	2,075	2,070	2,070
Ecuador	----	----	1,000
Ethiopia	----	----	3,000
Finland	40,000	40,000	65,000
France	389,242	385,930	389,842
Gabon	1,020	----	1,216
Gambia	240	----	----
Germany (FRG)	325,000	325,000	409,836
Ghana	3,000	3,000	----
Greece	13,000	13,000	14,000
Holy See	2,500	2,500	2,500
Iceland	4,333	5,750	----
India	2,000	10,000	10,000
Iran	5,000	8,000	8,000
Iraq	5,000	5,000	----
Ireland	7,500	7,500	10,000
Israel	7,500	7,500	----
Italy	3,000	20,000	20,000
Ivory Coast	3,060	3,060	2,700
Japan	20,000	20,000	20,000
Kenya	1,000	1,000	----
Kuwait	----	3,000	3,000
Lebanon	----	2,000	----
Liberia	----	5,000	5,000
Libya	3,000	5,000	5,000
Liechtenstein	----	3,472	----
Luxembourg	3,000	4,000	----
Malagasy Republic	2,877	834	900
Malawi	360	----	360
Malaysia	1,000	1,000	1,000
Mauritania	612	----	----
Mauritius	----	1,000	----
Monaco	----	----	180
Morocco	9,960	10,000	10,000
Nepal	2,000	2,272	----
Netherlands	146,945	166,389	180,555
New Zealand	22,400	22,400	----
Niger	510	----	----
Nigeria	5,000	5,000	5,600
Norway	208,237	223,720	273,415
Pakistan	----	2,500	2,500
Panama	----	----	500
Peru	----	1,000	----
Philippines	1,250	1,250	1,250
Portugal	4,000	4,000	----
Qatar	----	5,000	----
San Marino	1,600	----	----
Saudi Arabia	8,000	8,000	8,000
Senegal	----	3,597	3,597
Sierra Leone	600	600	----
Southern Yemen	----	240	480
Sudan	2,872	2,800	----
Sweden	300,000	468,848	400,000
Switzerland	152,778	219,870	185,185
Tanzania	3,500	3,500	----
Togo	1,633	1,439	1,300
Trinidad and Tobago	----	1,479	1,500
Tunisia	2,500	2,500	2,500
Turkey	5,000	5,000	5,000
Uganda	5,000	5,000	5,000

See footnotes at end of table.

GOVERNMENT CONTRIBUTIONS AND PLEDGES TO THE UNHCR PROGRAM 1968–70—Continued

Country	1968	1969	1970 [1]
United Arab Republic		6,900	6,900
United Kingdom	287,977	359,971	359,971
United States	600,000	[2] 800,000	1,000,000
Uruguay		523	
Venezuela	4,000	4,000	
Yugoslavia	10,000	10,000	10,000
Zambia	2,000	2,000	
Additional contributions expected [3]			[4] 150,000
Total	3,553,705	4,299,094	4,660,540

[1] Contributions paid or pledged as of Feb. 26, 1970.
[2] An additional $50,000 was made available to meet urgent refugee needs in Austria.
[3] Including contributions expected from governments which contributed in 1969 but which have not yet contributed or pledged for 1970.
[4] Estimated.

Note: As a percentage of the total, the U.S. Government contribution was 16.84 percent in 1968, 18.61 percent in 1969 and is expected to be approximately 21.5 percent in 1970.

SOURCES OF FUNDS AVAILABLE TO UNHCR

Mr. PASSMAN. What was the total amount of the budget for this organization in 1969, Mr. Secretary?

Mr. SOBOTKA. $5,700,000 for 1969.

Mr. PASSMAN. Are other funds available to the High Commissioner besides the voluntary country contributions?

Mr. SOBOTKA. He receives most of his contributions from governments, but he also receives voluntary contributions from some private organizations and does some private fund raising, and in addition he has certain trust funds which can be used to apply toward a given year's program.

Mr. PASSMAN. What type of trust funds?

Mr. SOBOTKA. They come from various donors, sometimes individuals.

Mr. PASSMAN. The High Commissioner does not have trust funds under his direct supervision or control, does he?

Mr. SOBOTKA. He sets up trust funds at the direction of donors.

Mr. PASSMAN. Would you furnish for the record for 1968, 1969, and 1970 the amount of contributions from other sources and in a separate column the amount he receives out of trust funds, and which of those trust funds have their headquarters in America.

Mr. SOBOTKA. Yes, sir.

(The information follows:)

Some contributions to UNHCR are for projects or purposes which are not included in the UNHCR program. Monies for such projects or purposes are termed "Special Trust Funds" by the UNHCR, in the sense that they are reserved for special uses and are not part of the general fund for program projects.

OTHER CONTRIBUTIONS TO UNHCR

	1968	1969	1970 (as of Feb. 28, 1970)
Non-Government contributions to UNHCR trust funds	$316,208	$423,734	$135,000
Government contributions to UNHCR trust funds	484,409	899,810	903,600
Total	800,617	1,323,544	1,038,600
Non-Government contributions to UNHCR program funds	389,657	124,332	84,640

TRUST FUND DONORS DOMICILED IN THE UNITED STATES

	1968	1969
Howard Karagheusian Commemorative Corp. (New York City)	$2,000	$2,000
Jinishian Memorial Fund (New York City)		6,000
Zonta Clubs (Chicago)		430
Total	2,000	8,430

Mr. CONTE. Will you yield, Mr. Chairman?
Mr. PASSMAN. Yes, sir.

FUNDS FOR EUROPEAN MIGRATION

Mr. CONTE. How much of this money is just for European migration?
Mr. SOBOTKA. Most of the money, sir, is connected with European refugee migration. We do not have an exact breakdown, but I would estimate roughly that over half would be considered as applying to European migration.
Mr. PASSMAN. I want to be straightened out because you told me half a million dollars only for the Far East.
Mr. SOBOTKA. Yes; but a large part of the High Commissioner contribution goes to Africa and Asia.
Mr. CONTE. The reason I ask that question is I have been on this subcommittee for 12 years and we have had this budget for 12 years. When are we going to phase it out? Why can't the Europeans take care of their own?
Some of their economies are as strong or even stronger than ours. Why do we have to continually be involved? I imagine the inception of this program was after World War II when there was a tremendous amount of migration of refugees all over Europe, and Germany, England, France, and Italy were down on their knees. Now they are viable and have strong economies. Why does the United States want to continue in this area?

REFUGEES FROM EASTERN EUROPEAN COUNTRIES

Mr. SOBOTKA. Mr. Conte, perhaps the major reason for this is that most of these people we are dealing with are refugees from Eastern European countries.
Mr. CONTE. I realize that.
Mr. SOBOTKA. The large majority of these refugees wish to come to the United States. Not all of them are able, but the majority wish to come to the United States. They look toward the United States as the image and the symbol of freedom which they have sought. We have as a general policy, as part of our humanitarian policy, to provide this type of assistance as our share.
What we are contributing is supplementary to what is paid by the European Governments, what is paid by the international organizations, and by private voluntary organizations.
Mr. CONTE. How much are the Europeans kicking in?
Mr. SOBOTKA. It is very difficult to get precise figures but one figure I can cite offhand is that Austria last year estimated that their expend-

itures were over a million and a half dollars for the refugees in the camps in Austria.

NUMBER OF EUROPEAN REFUGEES IN 1969

Mr. CONTE. How many refugees did you have last year in Europe?

Mr. SOBOTKA. We assisted a total of over 53,000 European refugees.

Mr. CONTE. How much money was expended?

Mr. SOBOTKA. The total.?

Mr. CONTE. No: for the 53,000 refugees.

Mr. SOBOTKA. We expended in the neighborhood of $10 million, I believe, counting all sources of funds.

Mr. CONTE. If you divide 53,000 into $10 million, what do you get? That is pretty expensive, is it not?

Mr. SOBOTKA. The $10 million includes some items that are not directly related to those 53,000, sir. For example, the $500,000 for Hong Kong is not related.

Mr. CONTE. I did not ask about Hong Kong. I am talking about Europe only. I purposely left out Hong Kong. I feel like the chairman. These programs get started and there is no end to them. It seems to me that we have just worn out this particular program in Europe, and yet it will keep on hanging on year after year. I want to know what percentage of those 53,000 refugees came to the United States.

Mr. SOBOTKA. Of the 53,000 that were assisted, we would estimate in the neighborhood of about 12,000 were actually able to be admitted to the United States.

CUBAN REFUGEES

Mr. CONTE. We have these thousands and thousands of Cuban refugees coming into Florida and the United States. We have a fantastic tab on them. Yet no other country in the world is helping us with the Cuban refugees. They say that is our problem. Yet we pick up half of the tab for the European refugees where there are good, strong, viable economies. Don't you agree with me that this is inconsistent?

EUROPEAN REFUGEES

Mr. SOBOTKA. Mr. Conte, I agree in a way it looks as though these countries perhaps should do more, but in the sense that the refugees who came out from the Eastern European countries came out in a big flood in 1968 and 1969, they overwhelmed the local facilities. The international groups got together to try to help them. This is the primary reason why we pitched in to continue our operation at a higher level.

Mr. CONTE. But that is in the past. You have no big flood of Iron Curtain country refugees coming out now. Maybe you did out of Czechoslovakia, but not out of the other countries.

Mr. SOBOTKA. The numbers coming out of the other Eastern European countries are actually increasing. The 53,000 figure includes about 65 percent Czechoslovaks.

Mr. CONTE. That would figure. You see my point, Mr. Chairman. We have this gigantic Cuban refugee problem and this is a humanitarian program.

(Discussion off the record.)

Mr. PASSMAN. I want to commend the gentleman for his contribution. As I earlier stated, many of the European countries are waxing fat with wealth and they have stronger economies than they have had in the history of their countries. I do not see any justification for continuing the program at all, other than we are committed. If it is properly handled it may identify the United States with a humanitarian program. Other than that, I do not see the need. But we are in there, and I am in hopes that maybe this year on account of the fact that we are trying to hold down expenditures as much as we can to try to control inflation, that you would cut your program back and not have to come in and ask for supplemental or transfer as much money out of an overfunded AID appropriation.

REFUGEES FROM EUROPEAN COMMUNIST COUNTRIES

Mr. PASSMAN. The next program is the refugees from European Communist countries. The 1971 estimate is $814,000, which is a reduction, if we read the record correctly, of $4,686,000 below the proposed program for fiscal 1970. Is that correct?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Are you phasing out the program, or are other nations assuming the responsibility of funding it?

REDUCTION FOR 1971

Mr. SOBOTKA. As far as our future projections are concerned, this program is based on an assumption, Mr. Chairman, that the numbers of East European refugees will drop sharply, and that it will be possible to reduce the program to the level we have requested.

We are not certain that it will actually turn out this way, but neither do we have sufficient information at this time to indicate that the numbers of refugees will be great enough to justify asking for a larger amount.

Mr. PASSMAN. You are cutting this estimate by approximately 80 percent, which we are glad to see, but some of these things need an explanation. If this committee has been guilty of overfunding you in the past, then I want to apologize to 204 million Americans. You made a case earlier that the influx may increase. Then we get into another program and we see where you are cutting it down to $814,000, which is a reduction of $4,686,000.

ORIGINAL REQUEST FOR FISCAL 1971 REDUCED BY BUDGET BUREAU

Mr. SOBOTKA. Yes, Mr. Chairman. It was recognized by the administration and the Bureau of the Budget at the time our original request was considered that a larger amount might be necessary.

Mr. PASSMAN. Upon whose recommendation did you cut down this estimate?

Mr. SOBOTKA. This amount was reduced by the Bureau of the Budget.

Mr. PASSMAN. Are you telling us now that this is a phony reduction, and that you are going to have to come in subsequently and ask for more money?

Mr. SOBOTKA. No, sir, I cannot say it is a phony reduction.

Mr. PASSMAN. I will not use the word "phony," but is it an accurate estimate that you are giving us today?

Mr. SOBOTKA. This estimate is based on the assumption that by 1971 there may be a sharp reduction of the Eastern European refugee program.

Mr. PASSMAN. Was the assumption made by experts, or by some person who just wanted to reduce the estimate?

Mr. SOBOTKA. We requested a larger amount.

Mr. PASSMAN. What was your request?

Mr. SOBOTKA. It was about five and a half million.

CONSEQUENCE OF CURTAILED PROGRAM FUNDING

Mr. PASSMAN. Why don't you serve notice on these people that this is it, you are going to get $814,000 and that is all? Then let them shape the program accordingly. Couldn't they survive on this amount?

Mr. SOBOTKA. If this were to happen, sir, and if the numbers of refugees should not be reduced it would cut back on the programs of the American voluntary agencies.

Mr. PASSMAN. I know that. I am not talking about that. I am talking about if we limited our contribution to $814,000 and you made it positive that this is our total contribution, gentlemen, and you live with it. They could live with it, could they not?

Mr. SOBOTKA. No, sir; I don't think so.

Mr. PASSMAN. Why not?

Mr. SOBOTKA. It might mean that a large portion of the refugees would not be helped.

Mr. PASSMAN. You mean the Europeans who are supposed to be sympathetic to these problems, that are able to make a larger contribution, would not do so?

Mr. SOBOTKA. Mr. Chairman, we have had over the years a very good smooth running combination of international refugee efforts.

Mr. PASSMAN. But we have been doing it on borrowed money and the time has come when we have to bring our fiscal situation under control.

We still have inflation running at a rate of about 5 percent even with restraints. You could confiscate all the wealth in America and still not be able to do all the things labeled desirable by the politicians. Some of us must face up to our responsibility and not let you people come in with a request for $814,000 and then later come back for an additional $5 million. We will not operate that way this year.

I know what this administration is trying to do—it is trying to check inflation. It will have to do it by stopping the pumping of billions of dollars into the nonproductive element of our economy and spending the funds elsewhere.

TOTAL COST OF REFUGEES FROM EUROPEAN COUNTRIES PROGRAM

What is the total cost of the refugees from European countries? What is the total for the next fiscal year?

Mr. SOBOTKA. Are you referring to the overall cost of all Governments?

Mr. PASSMAN. I am talking strictly of this one program, Refugees

From European Communist Countries. What will be the cost of carrying this particular program?

Mr. SOBOTKA. Mr. Chairman, we do not have the figures on the overall cost.

Mr. PASSMAN. How did you ever make an estimate if you did not have those figures? How do you know what our percentage will be, Mr. Secretary, if you did not have such information?

Mr. SOBOTKA. I am speaking of what all countries would contribute.

Mr. PASSMAN. What is the grand total?

Mr. SOBOTKA. This is what I am not clear about.

Mr. PASSMAN. How would you come up with a particular figure that would be our part, if you did not know what they were giving?

Mr. SOBOTKA. Because through experience we have known what our costs are.

Mr. PASSMAN. Then give us the information on fiscal 1969. What was the total cost?

U.S. CONTRIBUTION VERSUS OTHER COUNTRIES

Mr. SOBOTKA. The fiscal figure for 1969 was $5,500,000.

Mr. PASSMAN. For our part?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Then what was the total cost of the program.

Mr. SOBOTKA. We do not know the total cost counting the contributions of all the European countries.

Mr. PASSMAN. Then you do not know of the total amount spent, what percentage our contribution is?

Mr. SOBOTKA. For this particular operation, we do not.

Mr. PASSMAN. Why not, Mr. Secretary?

Mr. SOBOTKA. Because it has been very difficult to obtain this information from the other governments.

Mr. PASSMAN. In other words, you do not know what the other governments are contributing, but you do know what we are contributing?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. It could be that we are putting up 90 percent?

Mr. SOBOTKA. No, sir; we are quite clear that they are bearing the essential costs of keeping the camps up.

Mr. PASSMAN. Couldn't you give us an estimate, Mr. Secretary?

Mr. SOBOTKA. I would be glad to try to prepare one.

Mr. PASSMAN. I have a lot of respect for you, sir. But we are supposed to do what we are doing today because the people are holding us responsible for this overspending. I think the time has come where every subcommittee has to find out even in small amounts what the other people are doing. Our part is $5 million and you do not have any idea what the other nations are putting up.

Mr. SOBOTKA. We do not have the specific figures now, sir.

Mr. PASSMAN. Give us something that is not specific then. Do you have any general idea?

Mr. SOBOTKA. I would say we could consider $20 million would be the contribution of the European governments.

Mr. PASSMAN. That is entirely a guess?

Mr. SOBOTKA. That is a guess; yes, sir.

Mr. PASSMAN. But the world would not come to an end if you limited our contribution this year to $814,000, would it?

Mr. SOBOTKA. The world would not come to an end, but there could be a serious reduction in this work, as a result.

Mr. PASSMAN. How do you know that? Maybe the other nations are just as sympathetic as we are. They are plenty able to do it. I believe the European nations could absorb the entire cost. If you do not know what they are contributing percentagewise to the grand total, you do not know what they will do until you serve notice that this is it. Isn't that a correct statement?

Mr. SOBOTKA. That is correct, but based on previous experience——

Mr. PASSMAN. I am not interested in your previous experience. I am interested in this year. Maybe we should get around to a line item bill and place absolutely strict limitations on what we contribute.

It is not your fault. Your predecessors started these programs many years ago and the most permanent thing in Government is a temporary program. We would agree you cannot find one that has been abolished. They just don't abolish programs of this kind.

Mr. SOBOTKA. Mr. Chairman, we do wish to assure you that we are mindful of the need for economy.

APPROPRIATION REQUEST REPRESENTS PARTIAL FUNDING

Mr. PASSMAN. You are, but you do not come in and indicate it by any reduction in the program. You come in and ask for $5 million and say we may need an additional $5 million to go with that. You did in 1969, you did it in 1970, and now you are laying the groundwork to come back and ask this committee for an additional $5 million, or get a transfer of funds from the overfunded AID agency.

What I am trying to do is make a strong case that you are going to have to live on $814,000. I would assume that the Director of the Budget, who has the responsibility of trying to pare down this ever-increasing budget, must have thought that the $814,000 was adequate for a minimum program, or he would not have recommended it. Wouldn't you assume that?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. So let us back him up, not only on this, but on all the other things you deal with.

Mr. COHELAN. Mr. Chairman, would you yield?

Mr. PASSMAN. Yes, sir.

IMMIGRANT QUOTAS

Mr. COHELAN. On this point, Mr. Secretary, on the assumption, as you assert in your statement that this is in our national interest, is there anything else that we do? Do we allow any quota relaxation or anything like that for entry into the United States?

Mr. SOBOTKA. There is a provision in the immigration law for admitting 10,200 refugees under seventh preference from Europe and the Middle East.

Mr. COHELAN. Is that over and above the normal quotas?

Mr. SOBOTKA. It is included in the regular limitations of the immigration law. It is 6 percent of the total for the Eastern Hemisphere.

CZECHOSLOVAKIANS ENTERING THE UNITED STATES

Mr. COHELAN. How many of these refugees that you allude to and are thinking about, the Czechoslovaks specifically, have taken advantage of this?

Mr. SOBOTKA. About 5,000 Czechoslovaks came to the United States last year.

Mr. COHELAN. So there has been an inflow.

Mr. SOBOTKA. Yes, sir.

Mr. COHELAN. What have the other countries done?

Mr. SOBOTKA. The other countries have taken a very fair proportion of them. Australia, particularly, Canada, and then the European countries have absorbed a very substantial proportion.

Mr. COHELAN. How about Australia?

Mr. SOBOTKA. Australia has been the largest.

Mr. COHELAN. They are given full resident status?

Mr. SOBOTKA. Yes, sir.

Mr. COHELAN. Thank you, Mr. Chairman.

UNCERTAINTY OF FUNDING REQUIREMENTS

Mr. PASSMAN. These answers do not destroy the record we made earlier, that you do not know how many countries are in the program, you do not know what the grand total is, and you do not know what each country is contributing percentagewise, do you? I think we agreed on that earlier.

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. I think that makes the case for an $814,000 appropriation or less if the committee in its wisdom decides to make a reduction. We are not being fair to 204 million Americans to let you wonderful administrators come in and ask for $814,000, and for this very same program indicate that you may be back later for an additional amount. We are just not going to play the game that way.

I want to commend all of those who have had the courage to establish some restraints. I am going to cooperate.

CONTRIBUTION TO EASTERN EUROPEAN COMMUNIST REFUGEES

This particular program, Refugees from European Communist countries, is separate from the prior program. Do you know how many may be contributing to this particular program?

Mr. SOBOTKA. The principal countries of asylum, namely Germany, Austria, Italy, Greece, France, Belgium, Sweden.

Mr. PASSMAN. You use the word "principal." Is that all of them, or can you give us the total number?

Mr. SOBOTKA. We can give you the total.

Mr. PASSMAN. We want to find out who is contributing, and how much.

(The information follows:)

Exclusive of any contributions they might have made to the Intergovernmental Committee for European Migration or the United Nations High Commissioner for Refugees, the countries listed below gave assistance in 1969 to refugees from Eastern Europe through housing, food and other interim care and maintenance programs, local integration, or permanent resettlement overseas.

Argentina
Australia
Austria
Belgium
Bolivia
Brazil
Canada
Chile
Colombia
Denmark
Ecuador
France
Germany, Federal Republic of
Greece
Israel
Italy
Lebanon
Luxembourg
New Zealand
Norway
Peru
South Africa, Republic of
Sweden
Switzerland
Turkey
United Kingdom
Uruguay
Venezuela

Mr. PASSMAN. Mr. Chairman, of course, we are humanitarian and charitable and thank God for that, but are these escapees cognizant that it is America to a very large extent who is trying to help them?

AMERICAN VOLUNTEER AGENCIES

Mr. SOBOTKA. I think the bulk of them are cognizant of that because, Mr. Chairman, in this particular program we are talking about now, the work is all done by American voluntary agencies which are under contract to the State Department and the refugees go to the offices of these agencies in Europe. They are clearly American agencies. They are given counseling as to possibilities of coming to the United States. They are given welcome kits with "Gifts of the United States Refugee Program" written on them, which they carry around with them.

I think one thing that is clearly indicative of this is the very large proportion of those refugees who wish to emigrate from Europe rather than stay in Europe, want to come to the United States and approach American agencies for this reason.

Mr. PASSMAN. Is there competition between the agencies?

Mr. SOBOTKA. They have a sort of natural constituency. Some are ethnic and some religious and the refugees go to agencies of their own choice for assistance.

REFUGEES ADMITTED TO THE UNITED STATES

Mr. PASSMAN. Of the total 53,000 refugees for fiscal 1970, about 10,000 will come to the United States, is that correct?

Mr. SOBOTKA. Perhaps 12,000, sir, because our maximum under the present law is 10,200 as refugees, but some can obtain regular visas.

Mr. PASSMAN. Have they any particular trades? Do you have any way of knowing if you have a certain number of skilled personnel as distinguished from laborers?

Mr. SOBOTKA. I think you would find a range of all kinds of occupations but the bulk of these refugees from Eastern Europe are of very high quality and most of them offer skills which are very useful to the United States and most of them find jobs very readily.

SCREENING OF REFUGEES

Mr. Chairman, all of the refugees who come to the United States are given very careful screening by the appropriate U.S. authorities and all of them are carefully examined as far as their background and bona fides are concerned. Searches are made for any derogatory information and they are given complete national agency checks here in the United States.

Mr. LAUGEL. Our security professionals in the State Department perform this work for us overseas.

Mr. SHRIVER. All of this is required by law. It is the Walters amendment, is it not, in the Migration and Refugee Act, that no funds shall be used to assist directly in the migration to any nation in the Western Hemisphere of any person not having a security clearance based on reasonable standards to insure against Communist infiltration in the Western Hemisphere.

Mr. SOBOTKA. That is correct, Mr. Shriver, but in addition these same screening procedures are applied toward refugees who receive any assistance from us whether they come to the United States or the Western Hemisphere or not. In other words, we don't wish to be spending funds on refugees who are not——

Mr. SHRIVER. How many coming out of Czechoslovakia were turned down because they couldn't pass the requirements?

Mr. SOBOTKA. I will supply that for the record, Mr. Chairman.

(The information follows.)

From July 1, 1968, to January 1, 1970, approximately 600 Czechoslovak refugee principal applicants were screened out on grounds of ineligibility or for security or suitability reasons. Thus they, plus the dependents of those with families, were not eligible for immigration to the United States or for assistance under the U.S. refugee program.

CUBAN REFUGEE PROGRAM

Mr. PASSMAN. We have a large Cuban refugee program in the United States, do we not?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. How many nations are contributing to that program to help us bear that huge expense?

Mr. SOBOTKA. So far as I know, the United States bears the principal expense, particularly for those coming to the United States.

Mr. PASSMAN. Let's be direct, Mr. Secretary. Of the Cuban refugees coming in from Cuba to the United States as of now, to your present knowledge, how many nations are contributing to the fund?

Mr. SOBOTKA. No others for those Cubans coming to the United States. However, Cubans who go to Spain or other countries receive some international assistance.

Mr. PASSMAN. These refugees leave their country primarily because they don't like the form of government and, not that they are being subjected to any unduly cruel treatment, they just want to get into a freer atmosphere; isn't that true as to a large percentage of them?

Mr. SOBOTKA. Some who are coming out now have been subjected to some persecution.

Mr. PASSMAN. I am speaking of the majority of them.

Mr. SOBOTKA. The majority of them, I think, are fearful of persecution rather than actually having been persecuted.

Mr. PASSMAN. But they have heard about the grass being a little greener on the other side of the fence. Isn't that the fact of life? They are looking for more freedom and liberty.

Mr. SOBOTKA. I think in a very real sense, Mr. Chairman, most of these people in the Eastern European countries continue to think of the United States as the land of freedom and this is where they would like to come.

Mr. PASSMAN. They are so right and we are so glad that information has gotten through to them, but, on the other hand, the great percentage of them could remain in their country doing what they are doing and live under the conditions existing in their countries, could they not?

Mr. SOBOTKA. They presumably can and the situation has gotten somewhat better in some of the countries but at the same time there has begun to be an increasing dissatisfaction with the restrictions in those countries and to the degree more repressive measures are being put into effect as they are in Czechoslovakia, it creates this desire to leave.

Mr. PASSMAN. I understand that, but they could live in that environment the rest of their lives.

Mr. SOBOTKA. Yes, sir; but——

Mr. PASSMAN. I want to be fair about this, Mr. Secretary, but we know now what effect it is having on our relationships with some of these countries with whom we are trying to establish better relationships. Is there any resentment?

Mr. SOBOTKA. I don't believe there is any serious effect because we do not attempt in anyway to encourage the people to come out. We only assist those people who have chosen freely to come out.

Mr. PASSMAN. How many of them are returning, percentagewise? Are there records on that?

Mr. SOBOTKA. We will try to supply that for the record.

Mr. PASSMAN. Some of them are returning; are they not?

Mr. SOBOTKA. Yes, sir.

(The information follows:)

· The best information available on this point indicates that since August 1968 between 600 and 700 Eastern European refugees who requested formal asylum chose repatriation, primarily from countries of first asylum. This figures constitutes less than 1 percent of the total number who sought such asylum in Western countries.

CZECHOSLOVAKIAN REFUGEES

Mr. PASSMAN. How many of the Czech refugees under this program were eventually turned over to ICEM or the U.N. High Commissioner for final disposition?

Mr. SOBOTKA. The vast bulk of the Czechoslovak and other refugees under this program are moved by ICEM to their new countries, the ones who go overseas. They are moved by ICEM.

POSSIBLE CONSOLIDATION OF ACTIVITIES OF ICEM AND UNHCR

Mr. PASSMAN. You know there are 2,868 Federal agencies, departments, bureaus, offices, and so on, and there is an abbreviation for

every one of them. I have mastered about a hundred of them. I never will be able to master them all. You have ICEM and the UNHCR. Why couldn't one of them be abolished and consolidate the activities of these two?

Mr. SOBOTKA. Because the two organizations do not perform exactly the same functions.

Mr. PASSMAN. What is the difference?

Mr. SOBOTKA. The main purpose of the Intergovernmental Committee for European Migration is the transport and migration of people from Europe to other countries in the world. The main function of the High Commissioner for Refugees is established under the United Nations Convention on Refugees, which is the legal protection of refugees to see that their rights and status are preserved.

Mr. PASSMAN. Are there any branches of these two organizations under different names or abbreviations?

Mr. SOBOTKA. The United Nations High Commissioner also has within his mandate the right to assist refugees in all areas of the world whereas the Intergovernmental Committee for European Migration is primarily restricted to movements from Europe.

Mr. PASSMAN. They do have activity in Africa; do they not?

Mr. SOBOTKA. They have moved some people from North Africa to Europe in an emergency.

Mr. PASSMAN. Why couldn't the refugees from European Communist countries program be consolidated into ICEM or the UNHCR programs? Isn't that another spigot of this overall program?

Mr. SOBOTKA. We have conducted a separate U.S. program for this purpose in order that we can carry out assistance to refugees in the way we would like to do it from an American standpoint. We work through American voluntary agencies. We have a very large number of people in this country who come from the same backgrounds that these people in Eastern Europe do who are interested in their friends and relatives. By working as a supplemental program, we insure that essential refugee needs are met and that resettlement is speeded up.

HISTORY OF REFUGEE PROGRAMS

Mr. PASSMAN. All of these agencies came into being subsequent to World War II; did they not?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. What did you do after World War I to straighten out this mess?

Mr. SOBOTKA. There was very little done of this kind in World War I.

Mr. PASSMAN. It seemed to work out all right, didn't it?

Mr. SOBOTKA. On the contrary, Mr. Chairman, there was a great deal of human suffering.

Mr. PASSMAN. Put your finger on some of it. You and I know a lot of these people just feel the grass is a little greener on the other side of the fence.

We have people who say "The President made a speech yesterday and I didn't like it. I am going to Cuba tomorrow and cut sugarcane."

World War II was concluded in 1945. That is 25 years ago and these programs seem to be getting bigger, not smaller.

Mr. SOBOTKA. At the present time our basic programs are considerably smaller than they were originally.

Mr. PASSMAN. I am talking about the overall. They are growing, are they not, in personnel and money, if you put it on a worldwide basis?

Mr. SOBOTKA. Not since the peak after World War II, Mr. Chairman. It was much higher then.

Mr. PASSMAN. It looks as if you are making it a permanent fixture. I think it should be abolished and get you men of great talent in some other field.

REFUGEES FROM COMMUNIST CHINA

The next program is the refugees from Communist China. The fiscal 1971 estimate is $500,000, which is the same level as the proposed program for fiscal 1970, is that correct?

Mr. SOBOTKA. Yes, sir.

SERVICES OF HENRY ALLEN

Mr. PASSMAN. At this point in the record I want to commend what I believe to be one of the finest, most dedicated, forthright, outspoken U.S. Foreign Service officers I have ever had the privilege of knowing. That is none other than Henry Allen. Someday I would like to know why a man with his capacity, high integrity, great sincerity, was cut down. It is one of the saddest things that has happened in my 24 years in Congress, to know that a man of his capacity, who had rendered such outstanding service, should be "selected out" of the Foreign Service.

Mr. SHRIVER. Will the gentleman yield?

Mr. PASSMAN. I yield.

Mr. SHRIVER. I would like to be associated with the remarks you are now making. We engaged in a colloquy a year ago and discussed this matter. I was curious to know what happened as a result of the conversations we had and the fine remarks and response we had from the Ambassador. I hadn't heard the final outcome, so I am glad you are bringing the subject up again. I do want to concur in what you are saying.

Mr. PASSMAN. I want to thank the distinguished gentleman from Kansas. He is able, fair, and a good observer. Of course, we know Henry Allen is outstanding. I have a high degree of suspicion about a lot of statements made from downtown, because, if you have an organization or an establishment where a man must conform strictly to the thinking of his superior, or get discharged, then all I can say, it is a vicious system. I have no interest in Henry Allen other than the very fact that I worked with him and I know very well you can't make him do anything that is not absolutely good, right, and proper. I just hope that those who are so intent on chopping off his head will think again. Because if one head can roll, someday other heads can roll.

I feel very strongly about the way that man has been treated. I can't do anything about it because I don't do the hiring and firing, but some of you people ought to accept the challenge. Look into the man's record. If you do, you would feel just like I do. I think he got a dirty deal.

Mr. SOBOTKA. Mr. Chairman, may I——

Mr. PASSMAN. This is not directed at you. I don't know where this happened, or at what level. It could have been at the Consul General's level in some foreign country.

Mr. SOBOTKA. Mr. Chairman, may I comment on this?

I am entirely familiar with Mr. Allen's overall record, but not with those of the many officers with whom he has competed for promotions in the past. Therefore, it would be difficult and perhaps improper for me to comment on the effects of the Foreign Service system for promotions and retirements in Mr. Allen's case. However, I would like you to know that we in our office share your high opinion of Mr. Allen who is one of our most valuable officers.

Mr. PASSMAN. You mean the entire office?

Mr. SOBOTKA. Yes, sir. I would like you to know that he has, as Ambassador Martin explained last year, had his service extended. He was due to have his retirement effective March 31. It has been extended until June 30, and we are informed that he can be carried as a full-time consultant for 6 months after that.

IDENTIFIABLE PROJECTS IN FAR EAST REFUGEE PROGRAM

Mr. PASSMAN. Of the $500,000 estimate for Refugees from Communist China, would you furnish for the record at this point what you spent your fiscal 1970 appropriation for in that part of the world and what part, if any, of your fiscal 1971 expenditure will be for identifiable projects?

Mr. SOBOTKA. Yes, sir. Mr. Chairman; we will be glad to do that.

(The information follows:)

In both 1970 and 1971 we plan to spend the greater part of the appropriation for the Far East refugee program, or well over $300,000 each year, for identifiable projects.

In 1970, identifiable projects under consideration are:

Extension to the Lutheran Vocational Training School	$160,000
Macau refugee housing	110,000
Refugee fishermen's village on Lan Tau, Hong Kong	90,000

In 1971, over $300,000 will be contracted for identifiable projects, such as a needed hospital facility which will be visibly associated with the name of an outstanding American. In addition, greater emphasis will be given to serve projects providing vocational training to refugees, which is a very practical need at the present time.

Mr. PASSMAN. Since you plan to proceed with the program at the same level as last year, I assume you do not anticipate an increase in the flow of refugees; is that correct?

Mr. SOBOTKA. That is correct, Mr. Chairman. It is based on the assumption that the current situation will prevail.

PUBLIC LAW 480 PROGRAM

Mr. PASSMAN. Of course, this is only supplemental to the program. The main U.S. program in Hong Kong is Public Law 480, is it not?

Mr. SOBOTKA. There is a Public Law 480 program.

Mr. PASSMAN. You have the noodle factory and other similar activities, such as UNICEF and voluntary church relief organizations; do you not?

Mr. SOBOTKA. Yes, sir.

The Public Law 480 program in Hong Kong for 1970 is expected to run in the neighborhood of $1 million.

Mr. PASSMAN. When you say Hong Kong, how about Macau?

Mr. SOBOTKA. A small portion of it goes to Macau?

Mr. PASSMAN. Do you mean the $1 million in Public Law 480 commodities is all we have in Macau and Hong Kong?

Mr. SOBOTKA. That is correct. I don't have the exact figures, but I will supply it for the record.

(The information follows:)

COST, INCLUDING OCEAN FREIGHT, OF FOOD WHICH HAS BEEN DELIVERED TO HONG KONG AND MACAU OR IS SCHEDULED FOR DELIVERY UNDER FOOD FOR PEACE

	Fiscal year—		
	1969	1970	1971
Hong Kong	$759,600	$1,046,400	$840,000
Macau	109,200	64,800	66,000
Total	868,800	1,111,200	906,000

RECOGNITION FOR CONTRIBUTIONS

Mr. PASSMAN. Isn't Hong Kong one spot on the face of the earth where you have people of just about all tongues and all races going through, both friendly and unfriendly nations' representatives? Isn't it something like the crossroads of the world?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Wouldn't it be one place where you should have some sort of worthy, identifiable U.S. project? If the purpose of our aid programs are to win the minds of men then I think we should be using our funds for identifiable U.S. projects, such as the John F. Kennedy Spastic Children's Center.

If we are going to give away our money, in all instances where it is possible I think we should have something which is identifiable with the United States. Do you agree, Mr. Secretary?

Mr. SOBOTKA. Yes, sir. We are seeking to utilize of the $500,000 contained in this appropriation, roughly $300,000 a year for that same type project.

Mr. PASSMAN. Mr. Secretary, previously we have recommended that where you have projects, they should be identified in such a manner that the beneficiaries would know that it is a contribution from America. If you are going to build similar projects, name them after some former President. It could be Abraham Lincoln or Dwight Eisenhower, or any other President. I think without exception you ought to use the full name because these people are smart and they will know who we are talking about. Give it some thought.

Mr. SOBOTKA. It is a very good idea, Mr. Chairman and we have followed this approach. We actually do have a school named the Abraham Lincoln School in Hong Kong.

Mr. PASSMAN. I think we ought to use the names of our great Presidents. I don't know of anything that would be greater than naming a project after Dwight Eisenhower.

AMOUNT OF U.S. AID TO HONG KONG AND MACAU

Would you please update the table which appeared at page 100 of last year's hearings which shows the amount of aid that has gone to Hong Kong and Macau?

Mr. SOBOTKA. Yes, sir.

(The information follows:)

U.S. GOVERNMENT ASSISTANCE TO CHINESE REFUGEES IN HONG KONG AND MACAU

Fiscal year	Far East refugee programs	Value Public Law 480 surplus commodities[1]	Total
1954	$285,526	$150,650	$436,176
1955	956,770	725,650	1,682,420
1956	831,705	3,979,000	4,810,705
1957	747,463	7,618,750	8,366,213
1958	951,651	3,520,150	4,471,801
1959	1,520,901	3,611,000	5,131,901
1960	1,764,013	5,797,150	7,561,163
1961	617,079	7,208,200	7,825,279
1962	1,072,571	4,404,500	5,477,071
1963	2,066,670	3,186,650	5,253,320
1964	1,747,056	1,616,900	3,363,956
1965	611,989	3,691,200	4,303,189
1966	597,489	2,080,800	2,678,289
1967	234,723	1,357,400	1,592,123
1968	220,897	669,600	890,497
1969	500,000	868,800	1,368,800
1970	500,000	[3] 1,111,200	1,611,200
1971	[2] 500,000	[3] 906,000	1,406,000
Total	15,726,503	52,503,600	68,230,103

[1] Includes cost of ocean freight.
[2] Requested.
[3] Estimated.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. Mr. Secretary, this year you are requesting $723,000 for administrative expenses, which is $51,000 below the fiscal year 1970 proposed program. We want to commend you for this reduction. We will assume that this amount will be adequate for the year.

Mr. SOBOTKA. We certainly hope that it will be, sir.

Mr. PASSMAN. If you knew this was all you would get, you could live on it.

Mr. SOBOTKA. We would have to; yes, sir.

Mr. PASSMAN. You wouldn't have to. If you had just half of it, you would say "That's as far as we can go."

You could live on it, and at this time you anticipate you will live on the $723,000; do you not?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. What conditions, if any, would warrant an increase?

Mr. SOBOTKA. An increase in our workload would be the primary reason, sir.

Mr. PASSMAN. That is relative. It could mean an increase in refugees?

Mr. SOBOTKA. Partly that and partly other problems that don't necessarily relate to the numbers of refugees, but the creation of new refugees problems that we have to give attention to.

INTERNATIONAL COMMITTEE OF THE RED CROSS

Mr. PASSMAN. You have under your jurisdiction the International Committee for the Red Cross. The fiscal year 1970 estimate is for $50,000. Is that correct, sir?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Why is it necessary, with the tremendous amount of money available to the International Committee of the Red Cross, that we have to get our thumb in this pie?

Mr. SOBOTKA. Mr. Chairman, the International Committee of the Red Cross is dependent on the contributions of governments and of private Red Cross societies and there are a large number of governments and societies which do contribute to the ICRC. The United States, under Public Law 89-230, was authorized to contribute $50,000 a year as our share.

This amount of money goes exclusively toward the maintenance of the overhead administrative costs of the organization which also has to spend other moneys for special programs which may be raised by special appeals.

Mr. PASSMAN. This is a very, very small part of their total budget.

Mr. SOBOTKA. It is a very small part and it represents just the membership of the United States.

Mr. PASSMAN. We have had plenty of Americans contributing to the ICRC, did we not, foundations and individuals, before we got into it?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. This is just a question of letting the Government get in it?

Mr. SOBOTKA. It is customary for national governments and the national Red Cross societies each to contribute.

Mr. PASSMAN. It has only been customary since this law was adopted not too long ago; is that right?

Mr. SOBOTKA. No, sir; other governments——

Mr. PASSMAN. I am talking about the U.S. Government.

Mr. SOBOTKA. Oh, yes, sir, but we are conforming to international practice in having both the Government and the American Red Cross contributing to the organization.

PRISONERS IN NORTH VIETNAM

Mr. PASSMAN. What experience has the committee had in protecting and providing welfare to prisoners in North Vietnam? This is the organization that would perform that function; is it not?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. What success have they had?

Mr. SOBOTKA. The success has not been as great as we would like, but it has not been due to any lack of effort on the part of the International Committee of the Red Cross. They have made every effort and given every amount of cooperation to seek North Vietnamese agreement to inspection of conditions of internment, the reporting on health and welfare, of getting information and letters and mail to our prisoners of war, but they have had very little success due to the intransigence of the North Vietnamese authorities.

ICRC ACTIVITIES IN NORTH KOREA

Mr. PASSMAN. Would that also be true in North Korea?

Mr. SOBOTKA. I am not specifically familiar with the ICRC efforts in North Korea at the present time. I know of no particular problems there.

Mr. PASSMAN. It is under your office?

Mr. SOBOTKA. It is our office which is responsible in connection with this contribution to the ICRC and their administrative support, but not for all aspects.

Mr. PASSMAN. This $50,000 allocation comes out of your appropriation?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Wouldn't that in itself justify a demand on your part to get reports?

Mr. SOBOTKA. Yes, sir, and we can obtain the information about North Korea.

Mr. PASSMAN. How about North Vietnam? Have they been able to give assistance in North Vietnam?

Mr. SOBOTKA. There is abundant evidence that ICRC has been able to get some packages of mail to Hanoi, but unfortunately no indication that the POW's actually got the mail despite repeated and intense efforts by ICRC.

REPORT OF SENATE JUDICIARY COMMITTEE ON REFUGEE PROBLEMS

Mr. PASSMAN. Mr. Secretary, in a report to the Senate Judiciary Committee concerning U.S. assistance to refugees throughout the world, it was mentioned that there is no focal point for all refugee affairs. Did you read that?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Do you concur in that statement? Is it an accurate statement?

Mr. SOBOTKA. There is no single controlling point in the government for all refugee activities, except, of course, in the Presidency.

Mr. PASSMAN. In other words, there is no central office controlling and making overall resource allocations to the various organizations involved in refugee problems?

Mr. SOBOTKA. That is correct.

U.S. AGENCIES INVOLVED IN REFUGEE PROGRAMS

Mr. PASSMAN. How many different organizations and agencies do we have involved in the refugee program?

Mr. SOBOTKA. There are the State Department, AID, HEW, the Justice Department through the Immigrations Service. They are the principal agencies.

Mr. PASSMAN. But there are others, are there not? Did you name the Agriculture Department?

Mr. SOBOTKA. No, I did not, sir, but some Public Law 480 food goes to refugees.

Mr. PASSMAN. They get into it too, don't they?

Mr. SOBOTKA. Primarily through Public Law 480.

Mr. PASSMAN. But it is still American dollars. Public Law 480 is a larger program in the Far East than your program, isn't it? How many is that, about nine?

Mr. SOBOTKA. About five or six.

Mr. SHRIVER. Isn't the Defense Department involved in the refugee problem?

Mr. SOBOTKA. Yes.

Mr. PASSMAN. Now we are up to eight. There could be others.

Try to help us pin it down. Perhaps all such activities should be centralized under one office.

How are you going to keep up with it, when you have possibly 15 different agencies and departments involved? I don't see how you are ever able to know what you are doing or whether or not something should be canceled because you may have duplication somewhere else.

Mr. SOBOTKA. A strong argument could be made for centralizing the control but, on the other hand, there are other arguments on the opposite side. For example, I think we have mentioned before that there is a question of whether you want to take a problem such as the refugee situation in Vietnam and disassociate it from the overall Vietnam problem because the refugees are really part of that. Therefore, there has been on the part of the State Department an approach that we would try to see in the solution to refugee problems in which the United States has a concern, which is the best operational mechanism for dealing with this problem and if it works well, to leave it in that situation, rather than trying to centralize all refugee matters and have them focus out from a single point in the State Department.

MIDDLE EAST REFUGEE PROGRAM

Mr. PASSMAN. Who administers the program in the Middle East?

Mr. SOBOTKA. The Middle East program is administered primarily through the State Department because it is being dealt with in a United Nations framework.

Mr. PASSMAN. Who justifies the funds?

Mr. SOBOTKA. The funds are justified by the Bureau of Near Eastern and South Asian Affairs and by the Bureau of International Organization Affairs.

Mr. PASSMAN. It is too bad we can't arrange this entire program so we can stay on top of it. I wish you could pull it all together and know the actual cost.

TOTAL NUMBER AND COST OF U.S. REFUGEE PROGRAMS

I wish you would do a little research and let's see if we can't find out the number of refugee and escapee programs.

Mr. SOBOTKA. We will be glad to do that, sir.

Mr. PASSMAN. Include those under the U.N. because I think you may have more than one program under the U.N. Do the research for us and put it in one place in the record. If you can, as far as possible, list the U.S. cost for 1969. That would be an easy year because all the reports should be in.

Mr. SOBOTKA. We have that information.

Mr. PASSMAN. You do?

Mr. SOBOTKA. Yes.

Mr. PASSMAN. Put it in the record.

(The information follows:)

U.S. ASSISTANCE TO REFUGEES, FOR FISCAL YEAR 1969

Categories of refugees assisted	Program managed by—	Source of funds	Amount of assistance other than Public Law 480	Value of Public Law 480 funded by Department of Agriculture [1]	Total
Refugees in Europe and elsewhere, from European Communist countries	State	Foreign assistance	$5,400,000		$5,413,200
	AID			$13,200	
Chinese refugees in Hong Kong and Macau	State	Foreign assistance	500,000		1,224,000
	AID			724,000	
Refugee students from southern African countries in the United States	State	State	1,678,207		1,678,207
Refugees from southern Africa in other AF countries	AID	Foreign assistance	700,000		700,000
Palestine Arab refugees	U.N. Relief and Works Agency for Palestine refugees in the Near East (UNRWA)	do	[2] 22,200,000		23,523,600
	AID			1,323,600	
Various categories of alien refugees worldwide	U.N. High Commissioner for Refugees (UNHCR).	Foreign assistance	800,000		800,000
Refugees in Europe and the Near East from European Communist countries	Intergovernmental Committee for European Migration (ICEM).	do	[3] 2,386,800		2,386,800
Vietnamese refugees displaced within South Vietnam	AID	do	[4] 36,900,000	25,000,000	61,900,000
Laotian refugees displaced within Laos	AID	do	[5] 6,500,000	127,000	6,627,000
Cuban refugees in the United States	HEW	do	70,649,000		70,649,000
Various sub-Sahara groups	AID	Agriculture		1,376,200	1,376,200
Refugee nationals in Indonesia	AID	do		887,200	887,200
Tibetan refugees in India and Nepal	AID	do		270,000	270,000
Total			147,714,007	29,712,200	177,435,207

[1] At Commodity Credit Corporation costs and including transportation.
[2] Includes $8,900,000 in Public Law 480 commodities valued at world market prices.
[3] Estimated portion of U.S. annual contribution used for refugee costs (prorated according to refugee movements within total movements).
[4] Includes dollar equivalents of American AID chapter piaster support to GVN Ministry of Health, Social Welfare and Relief amounting to $27,100,000.
[5] Includes estimate of air support costs attributable to refugee assistance.

Note: Although not reflected in the table the Department of Defense renders assistance to refugees where essential in certain situations.

ADDENDUM TO ABOVE TABLE ON REFUGEES

There has been no refugee assistance program as such conducted within Nigeria during and since the period in which that country was torn by civil war. Certainly considerable numbers of Nigerians, on both sides, were uprooted from their homes during the conflict, and suffered on that account. In this sense, such persons may be classified as refugees displaced within their own country. However, these persons were by no means the sole component of the millions of persons in Nigeria in whose behalf the international community mounted a large relief effort.

The ravages of civil war brought deprivation resulting in relief assistance to some 3 million persons within Nigeria: an estimated 2 million on the secessionist side and 1 million on the side of the Federal Government. Within these numbers, the changing number of persons actually made homeless by the civil war could never at any time be determined or even estimated with a reasonable degree of accuracy. Thus, there is no way in which we could accurately prorate our overall Nigerian relief contribution to indicate the amounts which were utilized in behalf of Nigerians displaced within the country by the civil war. The total value to date of the U.S. Government's contribution for Nigerian relief during the civil war and postwar period is $74.1 million. This figure includes the value of U.S. donated food, the cost of transport of U.S. foods and private donations, various contributions in cash and kind for relief and rehabilitation support, and contributions to UNICEF, the International Committee of the Red Cross and the League of Red Cross Societies.

POSSIBLE CONSOLIDATION OF ALL REFUGEE PROGRAMS

Mr. PASSMAN. Has there been any serious thought given to combining all of the refugee programs under one head?

Mr. SOBOTKA. The matter has been given some consideration but no definite decision has been reached.

Mr. PASSMAN. It has been given serious consideration?

Mr. SOBOTKA. It has been given serious consideration. As a matter of fact, it is being considered right now by the management and organization officials in the State Department.

QUESTIONABLE BUDGET PROCEDURE

Mr. PASSMAN. Would you agree with me that we have thousands of programs presented to the Congress this year within the $200 billion budget request? Would you agreed that we should support that budget request as far as we can, and try to bring under control unnecessary inflation and spending? Do you believe it would be a mockery to present a low budget estimate when the administrators know that later on they may have to come back with a supplemental request for those things that had been cut out?

Mr. SOBOTKA. Mr. Chairman, I would agree if that were the actual fact——

Mr. PASSMAN. I am putting it on the basis of an actual fact. You said you budgeted $5.5 million and the Bureau of the Budget allowed you $814,000. You made your case.

Now, if this is a pattern that we are going to pursue, then we are making a mockery of the budget. Any agencies or any head of an agency who would pursue that course is making a mockery out of the original budget, is he not?

Mr. SOBOTKA. Mr. Chairman, I would like to say that the budget which has been presented for 1971 is a solid, sincere type budget, taking into account the uncertainties in the whole refugee area.

Mr. PASSMAN. Then why did you ask for $5 million more in that program where you are requesting $814,000?

Mr. SOBOTKA. Mr. Chairman, as a program manager, it is my job to attempt to foresee the picture and to provide adequately for the program as I see it.

On the other hand, it is equally true that refugee situations can change so rapidly that what is a major problem today may be a small one tomorrow and what is no problem today may be a large one tomorrow.

With this in mind, and in the face of the need for economy to reduce the national budget, the executive branch did not feel that our forecasts were sufficiently definite to justify asking the Congress for a larger amount at this time.

REFUGEES FROM EASTERN COMMUNIST COUNTRIES

Mr. PASSMAN. If you had gotten what you went to the Bureau of the Budget for, you would have had nearly $6 million, wouldn't you, for the refugees from European Communist countries program, but you accepted $814,000. But your original estimate that you went to the Budget with was $5.5 million?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. That $5.5 million is your best estimate?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Now, your best estimate is $814,000?

Mr. SOBOTKA. This estimate is based on the decisions made by the administration.

POSSIBLE CURTAILMENT OF PROGRAM

Mr. PASSMAN. The point is, are you going to live with it? I am going to try to help this Administration balance the budget, but when a witness went to the Budget Bureau for $5.5 million and you said "This is what we need," and the Bureau of the Budget gave you $814,000—and I am just picking this out as one glaring example of what we may be confronted with—if you are going to do your part, you are going to make sure you will only spend $814,000. If you do that, you may wind up Secretary of State.

You don't have to have this money. These programs are brand new. They came into being after World War II and you could dispense with them and still get by.

I want you to live with this estimate. I think you are a very able man, the head of an important program, small though it may be. You could set the example for the department heads to follow. Get rough and tell these people, "This is all you are going to get; fit your program to it." If you do that, you will be proud of yourself. There are a lot of your programs that you can be proud of. You ought to take the lead and perhaps some of these other department heads will follow your thinking. We are going to watch this item very closely, just as we are going to watch a lot of other programs.

Mr. SHRIVER. I would like to understand a little better what you have been discussing with the chairman. As I look at the fiscal year 1971 book that you have submitted here to us, you are asking for refugees for European Communist countries, $814,000. Now, the other amount, the $5.5 million, was in 1970 and not 1971. The $4,586,000,

plus the $914,000, for a total of $5,500,000, that is 1970, according to this report, and not 1971 about which you are testifying.

Mr. SOBOTKA. Mr. Shriver, when the chairman asked earlier whether we had asked for more money for 1970, I indicated that we had asked for an equivalent amount for 1971 but it was not allowed.

Mr. SHRIVER. Equivalent to the larger figure?

Mr. PASSMAN. He went to the Bureau of the Budget for the same amount as he had last year, but the Budget Bureau cut him to $814,000.

Mr. SOBOTKA. On the grounds that the situation was not sufficiently certain at this time to justify putting in the full request.

COUNTRIES INCREASING THEIR CONTRIBUTION

Mr. SHRIVER. And for the second year in a row your total program increased about 100 percent due to the availability of transferred funds from AID's appropriation, and since most of this increase was needed because of events in Czechoslovakia, did other participating countries increase their contributions by the same percentage level?

Mr. SOBOTKA. To the degree that we can determine this, they joined in and spent the necessary money to take care of their share of it; yes, sir.

Mr. SHRIVER. So you think they increased their contribution about the same percent?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. If the gentleman would yield, let us put that information in the record. We want to know for 1969 and 1970 exactly how much the other contributing countries increased their contribution.

(The information was furnished to the committee:)

PRESIDENTIAL TRANSFER AUTHORITY

Mr. SHRIVER. Under the provisions of the Refugee Act, the President can transfer up to $10 million from other foreign assistance programs to your program in any one year. Given the pressing refugee problems in Europe, Africa, and the Far East at this time, why does not the President exercise this authority to the maximum amount allowed?

Mr. SOBOTKA. Mr. Shriver, we made a careful estimate of what we thought would be needed for our total contribution and concluded that the total of $11,324,000 for 1970 would be adequate. We tried to keep our cost down as much as we could in terms of the problem involved. Since the committee was good enough to approve an appropriation last year of $5,511,000, we only needed this additional amount of money.

TOTAL U.S. GOVERNMENT SPENDING ON REFUGEES

Mr. SHRIVER. I think perhaps the chairman asked for this, but I would like to see in the record a breakdown of our total Government expenditures last year for all refugee and migration programs, including Public Law 480.

Mr. SOBOTKA. We will be glad to supply that for the record.

(The information may be found on page 49.)

ADMINISTRATION COORDINATION RECOMMENDATIONS

Mr. SHRIVER. Would you recommend any further administrative steps to improve the coordination of these programs? Is there anything more that can be done? I asked the question last year of Ambassador Martin if there could not be something more done about consolidation of these various governmental programs. I do not think anything has happened since the last time we met toward doing this. I can see it would be a saving to the Government. I think the interest of the people and the Congress is to bring together some of these programs.

Mr. SOBOTKA. Mr. Shriver, we recognize the interest of the committee in this point, and we have been studying the problem in the State Department. There are certain complications, as I mentioned, such as the problem of Vietnam, which makes it questionable as to how many things you can bring into a consolidated program.

Mr. SHRIVER. I can understand that.

Mr. SOBOTKA. For example, if in a given country in Africa you have a large number of refugees and at the same time you are conducting a foreign assistance program through AID, which involves agricultural and similar projects, which can benefit both the normal citizens and the refugees, it may be better to continue to handle that problem through the AID mechanism, which benefits each, because the projects are substantially the same.

Mr. SHRIVER. Actually the program that you administer is a very small part of our migrant and refugee programs of various agencies of this Government.

Mr. SABOTKA. In terms of funds it is; yes, sir.

Mr. SHRIVER. As I recall, something like $153 million was expended in 1969, and your expenditure is in the neighborhood of $5 to $10 million.

Mr. PASSMAN. Why does AID have to get in on every one of these programs, if the gentleman would yield?

Mr. SHRIVER. He explained that it could be that there would be greater reason for AID being involved in an African country in connection with the resettlement of people than the State Department. I do not understand that either.

Mr. SOBOTKA. In another example, there has been a country program for assisting Laos through our regular AID machinery. There are internal refugees in Laos who flee before the military forces. These refugees are picked up and moved into new development projects of the same type being provided through AID for people who are already in place. We can use the same staff and the same machinery and the same techniques for both groups. Therefore, in that particular instance, it would not necessarily make sense to try to run a separate refugee program as such for that group of refugees.

Mr. SHRIVER. How much supervision or assistance do you give to the refugee program in Laos?

Mr. SOBOTKA. We maintain what we would call a watching brief over the program. We try to keep abreast of it to see whether it is working well. If we felt it was not, we would make recommendations to the Secretary under the terms of his overall authority.

Mr. SHRIVER. How many refugees are there?

Mr. SOBOTKA. There are something like 260,000 refugees in Laos.

There have been about 18,000 in the recent airlift from the Plain of Jars.

Mr. SHRIVER. How is this assistance being funded?

Mr. SOBOTKA. Through AID funds.

Mr. SHRIVER. I know it is not under your jurisdiction, but how many refugees do we now have in Vietnam?

Mr. SOBOTKA. About 270,000 are still considered hard-core refugees. In addition there are substantial numbers of people who were in refugee status who are in the process of being integrated back into the economy.

Mr. SHRIVER. So that is down considerably from a year ago.

Mr. SOBOTKA. Yes, very considerably from about a million four hundred thousand people.

Mr. SHRIVER. You have nothing to do with refugees in Vietnam, or is your jurisdiction the same in connection with Laos?

Mr. SOBOTKA. Exactly the same as in connection with Laos; yes, sir.

WORLD REHABILITATION SERVICE BUILDING AND THE LUTHERAN SCHOOL IN HONG KONG

Mr. SHRIVER. Has any progress been made to more fully use the facilities of the World Rehabilitation Service Building and the Lutheran School Building in Hong Kong?

Mr. SOBOTKA. There have been no specific steps that I know of, sir. We understand that both operations are going on very successfully.

Mr. SHRIVER. It is very limited. I am sure there are a lot of handicapped children coming from Red China, or children of refugees in Hong Kong, but they are not using those facilities completely nor adequately. Isn't that right?

Mr. SOBOTKA. I am not informed to the contrary, Mr. Shriver, but I remember last year you mentioned as a result of your observations you felt that was true at the time. We have not had any such reports at this time from the World Rehabilitation Fund. I have not been to Hong Kong for several years.

Mr. SHRIVER. Who looks over that?

REPORTS ON HONG KONG FACILITIES

Mr. SOBOTKA. We have not had any inspection from Washington in the last several years primarily due to the lack of staff and funds to cover it.

Mr. SHRIVER. You had Mr. Allen who helped us to inspect those facilities.

Mr. SOBOTKA. We do have an officer in Hong Kong to replace Mr. Allen.

Mr. SHRIVER. Mr. Allen certainly knows all about that Rehabilitation Center and the Lutheran School.

Mr. SOBOTKA. We have not received any adverse reports on it.

Mr. SHRIVER. I know there would not be any adverse reports. But you and the chairman were conducting a discussion a little while ago about something further that maybe we could do in connection with our image in the Far East, and in connection with the humanitarian effort of assisting those coming from behind the Bamboo Curtain in that part of the world, and I thought this might be one area where

our image could be improved and we could do something in a humanitarian way.

Mr. SOBOTKA. Yes; I would certainly like to look into this matter and see if there is anything further we can do.

REFUGEES FROM RED CHINA

Mr. SHRIVER. Has there actually been a substantial increase in the number of refugees entering Hong Kong since the cultural revolution in Red China?

Mr. SOBOTKA. I would think not, sir. It is very difficult to get precise figures.

Our estimates would indicate that if anything, the numbers coming in the past year have been somewhat fewer than the years before.

Mr. SHRIVER. You do not really have too much information about that.

Mr. SOBOTKA. No, sir.

Mr. SHRIVER. Again going to the fact that you have not been over there——

Mr. SOBOTKA. We do receive reports from our post in Hong Kong, but the difficulty with this is that a number of people get into Hong Kong who are not known to the authorities.

The Hong Kong Government authorities do not call people refugees. They do designate illegal immigrants.

Mr. SHRIVER. Do they house them now without their having to live in a shack on the hill for a year or two?

Mr. SOBOTKA. No; there are still considerable numbers in squatter areas. The numbers are gradually being reduced and the housing efforts are going along well, but not enough to completely eliminate the squatter areas. The population is growing very rapidly in Hong Kong on a natural basis and it creates very serious overcrowding problems.

OTHER CONTRIBUTIONS TO HONG KONG REFUGEE PROGRAM

Mr. SHRIVER. On page 10 of the justifications you mentioned West Germany's grant to the Hong Kong refugee program. What other countries have contributed?

What is the nature of their assistance?

Mr. SOBOTKA. Most of the countries that have contributed have been primarily concerned with supporting voluntary agencies.

The Hong Kong Government itself contributes a great deal toward the welfare of these people, but we do not have recent figures on the specifics of the contributions of other governments. They come primarily through the Scandinavian and German countries, the Lutheran and Catholic organizations. Germany has contributed through what is called the German Bishop's Fund.

Mr. SHRIVER. But not government.

Mr. SOBOTKA. The German Government contributes in somewhat the same way we do. They work through their voluntary agencies.

ICEM

Mr. SHRIVER. You are requesting $2.9 million for the Intergovernmental Committee for European Migration.

That is a decrease of $600,000 below the 1970 contribution. On page 6

of the justifications it is stated that this estimate is based on the assumption of 20,000 fewer movements in 1971. When considering the higher workload statistics on page 3 of your statement, aren't you being optimistic?

Mr. SOBOTKA. Yes, we perhaps are being somewhat optimistic. On the other hand, the situation in Europe right now is such that we are not definite as to what could happen. There could be an absorption of the current refugees either through resettlement or being established in Europe during 1970, and the new flow could be down to a point where this estimate would be more realistic than the higher one. It is very difficult to say. The trend seems to be going both ways.

BIAFRAN REFUGEES

Mr. SHRIVER. Has there been any problem in connection with Biafra, that is, a refugee problem?

Mr. SOBOTKA. The bulk of the Biafrans who were displaced are in their own country of Nigeria so they are not considered technically refugees in the sense that they crossed national boundaries. The bulk of the people who have been displaced seem to be getting fairly rapidly back into some semblance of being resettled again. They are moving back into new villages or their old villages and productive life.

Mr. SHRIVER. Have we, through the United Nations Commissioner been involved in there?

Mr. SOBOTKA. We have been very substantially involved in overall relief efforts within Nigeria.

Mr. SHRIVER. Is that under your jurisdiction?

Mr. SOBOTKA. Not directly, no. Again, this is a matter on which we maintain a watching brief.

Mr. SHRIVER. How do we get involved—through the High Commissioner?

Mr. SOBOTKA. No; in the case of the situation in Nigeria, we are working through the Nigerian Government.

Mr. SHRIVER. Through the International Red Cross?

ICRC ACTIVITIES IN NIGERIA

Mr. SOBOTKA. The International Committee of the Red Cross is withdrawing from activity in Nigeria as a result of a situation which developed during the civil war.

Mr. SHRIVER. Why is that?

Mr. SOBOTKA. There was an attitude taken by the Nigerian Federal Government that the ICRC in attempting to provide food during the war to the people in Nigeria, including Biafra, overstepped the bounds of their national sovereignty and the controls they were trying to maintain.

LEAGUE OF RED CROSS SOCIETIES ACTIVITIES IN NIGERIA

As a result, certain conditions were imposed which caused the ICRC to feel that it would not be feasible for them to continue to work in Nigeria. But there will be a Red Cross presence there by shifting to another Red Cross organization, which is the League of Red Cross Societies. During January the U.S. Government has con-

tributed $2 million to that organization for this particular effort.

Mr. SHRIVER. Where does that come from?

Mr. SOBOTKA. From AID funds. We also have contributed to UNICEF. There has been some direct assistance to the Nigerian Government for equipment, airlifts, and that type of thing.

The total is about $12 million since the end of the hostilities.

There are some refugees from Nigeria who left the country during the hostilities and there are some other Nigerians whom it is difficult to characterize, who have been living in surrounding countries for a good while. There are perhaps in the neighborhood of up to 50,000 such people in the adjacent countries. The United Nations High Commissioner for Refugees, if requested by any of these neighboring governments, will attempt to help repatriate those Nigerians who want to return home, and in the meantime to provide them with some emergency assistance. Many of these people have been working in these other countries and do not apparently need much assistance at the present time.

There is a program by the Nigerian Government to try to attract a number of them home.

Mr. SHRIVER. Have any of the American draft resisters who left our country received any form of assistance from any of the organizations to which we contribute funds?

Mr. SOBOTKA. Not that I am aware of, Mr. Shriver. I do not believe so.

Mr. SHRIVER. Mr. Chairman, I think that is all.

Thank you.

Mr. PASSMAN. Do you have any questions, Mrs. Reid?

TRANSFER AUTHORITY

Mrs. REID. Thank you, Mr. Chairman. In the justifications on page 4, it is stated that decisions regarding the level of financial support for various assistance programs have been deferred until more definite information on the actual numbers of refugees become available. First, approximately when will such decisions be made and then will the money be provided from contingency funds or requested in a supplemental bill?

Mr. SOBOTKA. Mrs. Reid, by late fall of this year we should have a sound basis for estimating the number of refugees who will require assistance during 1971. While we would hope not to have to ask for additional funds, either on a contingency basis or through a supplemental bill, quite candidly, it is not possible to predict at this time what we may have to do. As you know, section 2c of the Migration and Refugee Assistance Act authorizes the President to transfer up to $10 million in foreign assistance funds. Whether we would seek such a transfer or a supplemental would presumably depend on consultations between the State Department, the Budget Bureau and AID in regard to what funds might be available at the time.

Mrs. REID. You state that $500,000 is being requested to provide assistance to refugees from Communist China in Hong Kong and Macau through the Far East refugee program—does this amount include the sums spent on the food for freedom program or is that a separate item?

Mr. SOBOTKA. This $500,000 represents the amount obligated for the

Far East refugee program alone, for Hong Kong and Macau, and does not include food for freedom.

TRAINING OF REFUGEES

Mrs. REID. Are there any provisions for giving training to unskilled refugees as part of their resettlement?

Mr. SOBOTKA. Yes. In Europe, the U.S. refugee program provides financial support for language training programs as do the Intergovernmental Committee for European Migration (ICEM), the United Nations High Commissioner for Refugees (UNHCR) and the voluntary agencies. During calendar year 1969 a record number of 7,300 refugees benefitted from English language training in 175 organized classes. In addition, refugees benefit from a number of vocational programs operated by countries of asylum, ICEM, and the voluntary agencies. For example, refugees receive vocational training in Camp Capua, Italy, and at the ORT school in Paris.

Since the beginning of the Far East refugee program, a total of $1,739,409 (about 12 percent of total expenditures) has been spent on providing vocational training for refugees. Major contributions went toward the Lutheran Vocational Training School in Kwun Tong, Hong Kong, and the Abraham Lincoln Block of the Hong Kong Technical College. In Macau, continuing programs provide training in basic electronics, secretarial science, tailoring, machine and hand knitting, beading, and so on for young men and women refugees.

AID TO BIAFRAN REFUGEES

Mrs. REID. What steps are being taken to help resettle and feed Biafran refugees?

Mr. SOBOTKA. As you recall Mrs. Reid, the collapse of the secessionist movement was unexpectedly sudden. This caused the Federal Military Government at the outset to encounter understandable difficulties in mounting a massive relief program. The immediate requirement, of course, was to get food, medical and other supplies to the affected areas urgently. The Nigerian Government decided that it would administer the relief assistance effort itself, and set about to assess the job to be done and to organize the machinery to carry it out. It placed overall authortiy for relief assistance in the National Rehabilitation Commission and the Nigerian Red Cross. At first most of the food and medical supplies were drawn from stocks already in the country or in surrounding areas placed there by the various relief agencies operating relief programs during the war. The transportation factor was critical, however, and it was here that the United States and other countries offered immediate and substantial assistance by airlifing vehicles and spare parts directly to Nigeria. Our information now is that the situation is improving steadily and essential relief supplies are moving into the former enclave in quantities which are alleviating suffering and stabilizing the situation.

Resettlement efforts must be looked at differently. The Nigerians presently out of the country for reasons directly related to the war are located chiefly in the neighboring countries of West Africa: Cameron, Ghana, Ivory Coast and others. Their estimated number is about 48,000. A special situation exists in Equatorial Guinea where an additional estimated 40,000 Nigerians, mainly Ibos, migrated before the

war to work on plantations. The United Nations High Commissioner for Refugees has indicated a willingness to facilitate voluntary repatriation, among other activities, and in fact is already undertaking programs in behalf of some of the external Nigerian refugees.

PRISONERS IN NORTH VIETNAM

Mrs. REID. Has the International Red Cross been any more successful in the past year than heretofore in the efforts in behalf of U.S. prisoners of war in North Vietnam?

Mr. SOBOTKA. The International Committee of the Red Cross has persisted in its efforts to intercede with North Vietnam, the Vietcong and the Communist forces in Laos concerning U.S. prisoners of war and missing in action personnel. The ICRC's President has informed North Vietnam that he is prepared to go there to discuss treatment of U.S. prisoners and related matters. The ICRC has continued to transmit lists of U.S. missing in action personnel to the other side, with requests for information on their status and health. North Vietnam has not responded to these many inquiries, as the ICRC has publicly confirmed. The ICRC's Central Tracing Agency has continued to compile information on U.S. prisoners and missing personnel, civilians as well as military, and to forward letters from families to the prisoners. It is not known how many, if any, of these letters reached the men for whom they are intended.

The Republic of Vietnam continues to send the names of Communist prisoners of war to the ICRC, as required by the Geneva Convention on Prisoners of War. The ICRC maintains a permanent delegation in South Vietnam, and ICRC delegates and doctors regularly visit all prisoner-of-war camps and installations in South Vietnam.

Mr. PASSMAN. Thank you, Mr. Shriver and Mrs. Reid.

Very briefly, you do not have any ammonia with you, do you?

Mr. SHRIVER. No, but I might need it.

TOTAL FOREIGN AID AND ASSISTANCE REQUESTED TO DATE

Mr. PASSMAN. Lean back in your chair, if you will, because you could fall on your face. I do not believe that President Nixon knows this any more than I believe that I will succeed to the Presidency tomorrow. Last year we had the second largest request for funds in the history of the foreign aid program, when you put all spigots together. It was $10,528,303,000. The total this year is $11.7 billion, which is $1.2 billion more. They have added another boogeyman, some kind of an expanded multilateral program, at a cost of $540 million. This is a new joker in the deck. If you put all the spigots together, it looks as if it is going to be $11.7 billion, which is by far the highest foreign aid program, in the history of America. I do not believe the President of the United States understands that these bureaucrats downtown—and I say that with compassion—have loaded up this bill with a lot of strange items.

(Discussion off the record.)

Mr. PASSMAN. This tabulation is going to be brought to the attention of the President very quickly, and he will understand it when I leave the White House.

Thank you, gentlemen, that is all for today.

Mr. SOBOTKA. Thank you.

THURSDAY, FEBRUARY 19, 1970.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

ASSISTANCE TO REFUGEES IN THE UNITED STATES

WITNESSES

HOWARD H. PALMATIER, DIRECTOR, CUBAN REFUGEE PROGRAM
GLYNN W. BAKER, FINANCIAL MANAGEMENT OFFICER, CUBAN REFUGEE PROGRAM
RANDOLPH W. LEE, DIRECTOR, BUDGET DIVISION, SOCIAL AND REHABILITATION SERVICE
CHARLES MILLER, II, DIRECTOR, DIVISION OF BUDGET, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Program by activities:			
1. Welfare assistance and services	42,378	56,092	72,978
2. Resettlement	4,766	5,360	5,542
3. Education	18,780	20,261	27,126
4. Health services	2,150	2,701	3,254
5. Transportation of refugees from Cuba	644	767	800
6. Program administration	1,931	2,195	2,300
Total program costs, funded—obligations	70,649	87,376	112,000
Financng: Unobligated balance lapsing	60		
Budget authority	70,709	87,376	112,000
Budget authority:			
Appropriation	69,774	87,282	112,000
Transferred to other accounts	−1,800		
Transferred from other accounts	2,735		
Appropriation (adjusted)	70,709	87,282	112,000
Proposed transfer from other accounts for pay increases		94	
Relation of obligations to outlays:			
Obligations incurred, net	70,649	87,376	112,000
Obligated balance, start of year	8,031	11,315	13,970
Obligated balance, end of year	−11,315	−13,970	−17,610
Adjustments in expired accounts	711		
Outlays	68,076	84,721	108,360

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Personnel compensation:			
Permanent positions	799	1,190	1,208
Positions other than permanent	244	32	32
Other personnel compensation	11	11	11
Total personnel compensation	1,054	1,233	1,251
Personnel benefits: Civilian employees	62	74	77
Travel and transportation of persons	28	30	30
Transportation of things	1	1	1
Rent, communications, and utilities	382	400	410
Printing and reproduction	24	30	30
Other services	22,879	24,913	32,200
Supplies and materials	22	25	25
Equipment	7	10	10
Investments and loans	3,812	4,568	4,988
Grants, subsidies, and contributions	42,378	56,092	72,978
Total obligations	70,649	87,376	112,000

PERSONNEL SUMMARY

	1969 actual	1970 estimate	1971 estimate
Total number of permanent positions	122	177	177
Full-time equivalent of other positions	53	5	5
Average number of all employees	165	175	175
Average GS grade	9.6	9.5	9.5
Average GS salary	$12,067	$13,209	$13,427

Mr. PASSMAN. The committee will come to order.

Today we will consider the fiscal year 1971 budget request for the Cuban refugee program of $112 million.

We have as witnesses the Honorable Howard H. Palmatier, Director, Cuban Refugee Program, accompanied by Mr. Baker, Mr. Lee, and Mr. Miller.

I assume you have a statement you would like to make to the committee, Mr. Director?

Mr. PALMATIER. I have a brief statement.

Mr. PASSMAN. Before we hear the general statement, we shall insert the Director's biographical sketch, inasmuch as this is the first time he has appeared before this committee in his present capacity.

(The biographical sketch of Mr. Palmatier follows:)

BIOGRAPHICAL SKETCH

Howard H. Palmatier, Director, Cuban Refugee Program of the Social and Rehabilitation Service, Department of Health, Education, and Welfare.

Mr. Palmatier was born in Maybrook, N.Y., on May 24, 1924.

After wartime service in the 1st Armored and 82d Airborne Division in Africa and Italy, Mr. Palmatier was assigned to refugee operations in Trieste. In 1952 he was sworn in as a career Foreign Service officer in the Department of State. He was assigned to refugee operations in Germany, Italy, Turkey, Greece, and other countries of the Middle East. He directed U.S. escapee program activities in Turkey until 1959 when he was appointed director of escapee activities for all Middle East nations.

In 1961 he was appointed Operations Officer of the Refugee and Migration Affairs Section of the U.S. Mission to the European Headquarters of the United Nations in Geneva.

In 1963 he was reassigned to the Department of State, Washington, D.C., to be detailed to the Cuban Refugee Program, Department of Health, Education, and Welfare.

In 1966 he became a career employee of the Department of HEW and was appointed Assistant Director of the program.

In 1967, at the request of the Department of State, he was detailed to the U.S. AID Mission, Republic of South Vietnam, and assigned to refugee operations.

He returned to the Department of Health, Education, and Welfare in 1968 as Acting Director of the Cuban Refugee Program and was appointed Director by Secretary Finch on May 15, 1969.

Mr. Palmatier was educated in the United States and Europe.

GENERAL STATEMENT

Mr. PALMATIER. Mr. Chairman and members of the committee, I am pleased to have the opportunity to present to you today the fiscal year 1971 appropriation request for the Cuban Refugee Program.

This program, under the Migration and Refugee Assistance Act of 1962 (Public Law 87–510), is responsible for the provision of a number of services to needy Cuban refugees in the United States. These services include: reception and registration upon arrival in Miami; classification of job skills; welfare assistance and services

to those in need; educational and health services; and resettlement from Miami to homes, job opportunities, and reunion with relatives in other parts of the United States. Our request for 1971 is for $112 million.

The appropriation request also includes funds for the transportation of refugees from Cuba to Miami. This activity, which was established by the United States under the 1965 memorandum of understanding with the Government of Cuba, is administered by the Department of State. The responsibility of the Cuban Refugee Program itself begins after the refugees have arrived in this country.

INFLUX OF CUBAN REFUGEES

The airlift of refugees from Cuba was initiated by the United States on December 1, 1965. Refugees arrive in Miami on two flights a day, 5 days a week. Through January 2, 1970, a total of 175,901 refugees had arrived via the airlift. The total number of refugees who had registered with the Cuban Refugee Program since the program began in January 1961 was 356,784 as of January 2, 1970.

The constantly increasing number of Cuban refugees in the United States has resulted in increased financial needs for the Cuban Refugee Program each year since fiscal year 1966, when the airlift began. The program not only is responsible for the refugees who arrive during a given year, but is potentially responsible, under certain circumstances, for any of the refugees who are living in the United States, regardless of their date of arrival. Thus, for example, a refugee who is initially successful in building a new life in the United States may, a few years later, because of ill health and unemployment, become in need of welfare assistance in the State in which he resides. When this happens, the Cuban Refugee Program becomes responsible for such assistance, reimbursing the State welfare agency for its expenditures on behalf of the refugee. In other words, there has been a continuously increasing cumulative number of refugees living in the United States for whom the program is required to make certain types of expenditures if the circumstances arise.

FISCAL YEAR 1971 BUDGET

This continuing increase in the cumulative number of refugees living in the United States, as well as new arrivals during the year, is reflected in the fiscal 1971 appropriation request of $112 million, which is an increase of $24,624,000 over the anticipated 1970 level of $87,376,000. Underlying this estimate is the assumption that, during 1971, the airlift operation from Cuba to Miami will continue at the same rate as in the past, resulting in about 48,000 additional refugees arriving in Miami during the year.

The budget request is composed of six major activities:

WELFARE ASSISTANCE AND SERVICES

The request for 1971 for welfare assistance and services for needy refugees is almost $73 million. Of this amount, $29 million is estimated for requirements in Florida, including hospitalization, and $44 million is for welfare assistance and services, including medical assistance, in

other States. Although 83 percent of the refugees are self-supporting, welfare assistance represents the most substantial item in the program's budget and accounts for 69 percent of the budget increase between 1970 and 1971. This reflects the growing cumulative number of refugees in the United States who are not able to be self-supporting, principally because of age or chronic disability. For example, in Florida, 65 percent of the refugees receiving welfare assistance are now over 65 years of age and a total of 81 percent are 61 years of age and over.

Under program policy, the needy refugees are eligible for welfare aid and services only under the same circumstances of need, and to the same extent, as American citizens. While this places appropriate limitations on assistance to refugees, it also means that changes in domestic assistance programs are reflected in refugee assistance. Expansion of the scope of domestic programs, as in the area of medical assistance, and improvements in levels of assistance to offset increased living costs, which have been occurring in most States, also result in increased fund requirements for refugee assistance.

RESETTLEMENT

Resettlement of refugees from Miami to opportunities for self-support and reunion with relatives in other areas is a major objective of the program. The estimate of $5,542,000 for resettlement activities anticipates that 34,000 persons will be resettled at an average cost of $163 per person, a slight increase over the estimated $158 per person in 1970, reflecting increased costs to the four national voluntary resettlement agencies which work under contract with the program.

EDUCATION

The estimate for educational activities in 1971 is $27,126,000. This represents an increase of $6,865,000 over 1970. An estimated $2.7 million of this increase is for payment to the Dade County (Florida) public school system, to which payments are made to cover part of the cost of educating Cuban children and for special English-language and vocational training programs to help refugee adults become self-supporting. The increase anticipates a continued rise in the number of Cuban children in the Dade County schools as a result of continuation of the airlift of refugees from Cuba.

An estimated $3 million of the increase in educational activities is for aid to the public schools of two communities in New Jersey which have experienced a large proportion of enrollments by Cuban refugee pupils—Union City and West New York. Studies conducted in the fall of 1969 showed 37 percent of the pupils in Union City and 35 percent in West New York to be Cuban refugees. Together with the U.S. Office of Education, we examined the situation in Union City and West New York and concluded that the impact of Cuban refugee pupils in these two school systems is sufficient to merit assistance.

HEALTH SERVICES

The 1971 budget request includes $3,254,000 for health services to needy Cuban refugees in Miami. This is an increase of $553,000 over 1970, resulting from anticipated continuing increases in the number of people to be served and in costs of medical care.

TRANSPORTATION OF REFUGEES FROM CUBA

The cost of transportation of refugees from Cuba is estimated at $800,000 for 1971 by the Department of State, an increase of $33,000 over the anticipated 1970 level. These funds are transferred by the program to the Department of State to cover the cost of the airlift, services by the Swiss Embassy in Havana in connection with the airlift, and a small amount for State Department expenses.

PROGRAM ADMINISTRATION

The estimate for program administration is $2,300,000, an increase of $105,000. This includes an average of 175 Federal staff performing program activities and direction both in Miami and Washington, the same number as in 1970.

Mr. Chairman, that concludes my statement. We shall be very pleased to try to answer any questions.

INCREASED APPROPRIATION REQUEST FOR FISCAL YEAR 1971

Mr. PASSMAN. Thank you very much, Mr. Director, for your statement.

Your fiscal 1971 estimate is $112 million, which exceeds by $24,718,000 the 1970 appropriation; is that correct?

Mr. PALMATIER. Yes, sir.

Mr. PASSMAN. That excludes the proposed transfer of $94,000 from NIH for the fiscal 1970 Pay Act costs?

Mr. PALMATIER. Yes, sir.

JUSTIFICATION DATA

Mr. PASSMAN. We shall insert the justification pages 3, 5, 6, 7, 8 and 9 at this point in the record.

(The justification pages follow:)

OBLIGATIONS BY ACTIVITY

Page reference	Activity	1970 estimate		1971 estimate		Increase or decrease	
		Position	Amount	Position	Amount	Position	Amount
16	Welfare assistance and services		$56,092,000		$72,978,000		+$16,886,000
24	Resettlement		5,360,000		5,542,000		+182,000
25	Education		20,261,000		27,126,000		+6,865,000
31	Health services		2,701,000		3,254,000		+553,000
33	Transportation of refugees from Cuba		767,000		800,000		+33,000
34	Program administration	177	2,195,000	177	2,300,000		+105,000
	Total obligations	177	87,376,000	177	112,000,000		+24,624,000

SUMMARY OF CHANGES

1970 estimated obligations	$87,376,000
1971 estimated obligations	112,000,000
Net change	+24,624,000

	Base	Change from base
Program increases:		
1. Assistance to needy Cuban refugees in Florida	$26,259,000	+$5,470,000
2. Assistance to needy resettled refugees	31,827,000	+11,977,000
3. Resettlement of refugees out of Miami	5,360,000	+182,000
4. Assistance to elementary and secondary public schools:		
Dade County Fla	15,135,000	+2,703,000
Union City and West New York N.J		+3,000,000
5. Vocational and English training in Dade County	900,000	+100,000
6. Loans to Cuban refugee college students	3,926,000	+1,062,000
7. Transportation of refugees from Cuba	767,000	+33,000
8. Increased expenses related to Federal administration of the program	2,195,000	+105,000
Total increases		+24,632,000
Program decreases: 1. Care of unaccompanied children (total decreases)	707,000	−8,000
Net change		+24,624,000

Explanation of Change

Assistance to needy Cuban refugees in Florida.—The increase of $5,470,000 for this activity consists of $3,351,000 for financial assistance, $21,000 for the distribution of surplus commodities, $1,128,000 for hospital costs, $417,000 for administration of the program by the State of Florida, and $553,000 for health services. The increases are necessary to provide for a large number of refugees requiring assistance and services as a result of the current influx of refugees from Cuba which started during fiscal year 1966 and continues at the rate of approximately 48,000 per year.

Assistance to needy resettled Cuban refugees.—The increase of $11,977,000 estimated for assistance to those refugees who have resettled from the Miami area is based on an increase in the total number of refugees resettled to various parts of the country. By the end of fiscal year 1969, a total of 220,774 had been resettled out of the Miami area. By the end of fiscal years 1970 and 1971, it is estimated that this number will increase to 254,774 and 288,774, respectively. At the beginning of fiscal year 1969, 17,754 persons who had been resettled required assistance. By the end of fiscal year 1969, the number had increased to $25,002. It is estimated that by the end of fiscal year 1970, 32,242 persons will require assistance and that by the end of fiscal year 1971, 42,078 persons will require assistance. The increases being experienced in this activity are due to a higher number of older persons and persons with medical infirmities entering the country. In addition, unlike the first influx of refugees who were retained in Miami until they could speak English and had job training so they could enter employment immediately upon their resettlement, almost 75 percent of the refugees now entering the country are resettled immediately to States other than Florida.

Resettlement of refugees.—The increase of $182,000 for this activity is due to expected increases in costs to the voluntary agencies which perform the resettlement function for the Federal Government.

Assistance to elementary and secondary public schools due to the impact of Cuban refugee children.—The increase of $5,703,000 for this item provides $2,703,000 to assist in the education of children in the Dade County, Fla., public school system, and $3 million for children enrolled in school systems of two townships in New Jersey: Union City and West New York. The increase for the education of children in Dade County is due to an estimated increase of some 5,000 children to be enrolled in that county's schools in fiscal year 1971. The funds request for the two New Jersey school systems is in recognition of the sizable number of Cuban refugee children in relation to total enrollments; the fiscal year 1971 request represents the first year a request has been made for funds to provide assistance to school systems other than Dade County due to the impact of Cuban refugee children.

Vocational and English training.—An increase of $100,000 is requested for providing this type of training to Cuban refugee adults in Miami. Better English proficiency and job skills are essential to help many of them become economically self-sufficient. The increase is due to the additional refugees that are constantly being added to the Cuban population in Miami.

Loans to Cuban refugee college students.—The increase of $1,062,000 estimated for loans to college students is to provide for an increase of about 700 student borrowers.

Transportation of refugees from Cuba.—The increase of $33,000 for this purpose is to provide $23,000 for increased costs anticipated for airflights and $10,000 for services performed by the Swiss Embassy.

Program administration.—The increase of $105,000 for this purpose is for day-to-day operating costs of the program. This includes $18,000 estimated for net salary increases in fiscal year 1971 due to periodic step increases. Increases are also necessary for various operations of the Cuban refugee reception and dormitory facilities at the Miami Airport and for the downtown Miami center, which also houses the program's medical clinic. The latter is expected to require some changes in space arrangements to handle the increasing number of needy Cuban refugees in the Miami area that must rely on this outpatient clinic for medical services they need.

ASSISTANCE TO REFUGEES IN THE UNITED STATES

Year	Budget estimate to Congress	House allowance	Senate allowance	Appropriation
1963	$70,110,000	$55,000,000	$70,110,000	$70,110,000
1964	70,000,000	[1] 56,000,000	[1] 39,717,137	[1] 39,717,137
1965	45,400,000	45,400,000	[2] 34,800,000	[2] 34,800,000
1966	[3] 44,865,000	44,865,000	42,600,000	42,600,000
1967	51,000,000	[4] 51,000,000	[4] 51,000,000	[4] 51,000,000
1968 [5]	49,000,000	49,000,000	49,000,000	49,000,000
1969 [6]	72,665,000	72,509,000	72,509,000	[7] 72,509,000
1970 [8]	87,282,000	87,282,000	87,282,000	87,282,000
1971	112,000,000			

[1] Plus unobligated funds estimated to be $14,082,863 on hand as of June 30, 1963.
[2] Plus unobligated funds estimated to be $7,600,000 on hand as of June 30, 1964.
[3] Reflects reduction of $2,135,000 contained in House Document 138.
[4] Plus $1,032,997 of prior year unobligated funds.
[5] Plus $4,500,000 of prior year unobligated funds for each of the amounts shown. Data also exclude $1,800,000 made available from the AID Contingency Fund.
[6] All data include $1,800,000 which was transferred to AID Contingency Fund to replace funds used to meet 1968 requirements.
[7] Includes an amount of $2,700,000 transferred from "Economic Assistance," Agency for International Development, and $35,000 for pay increase in fiscal year 1969 transferred from the Public Health Service in lieu of supplemental appropriation.
[8] Excludes $94,000 for pay raise proposed for transfer from another account.

BUDGET SUMMARY

Activity	1969 actual	1970 estimate	1971 estimate	Increase or decrease
1. Welfare assistance and services:				
Florida:				
(a) Financial assistance to needy refugees	$11,847,436	$15,782,000	$19,133,000	+$3,351,000
(b) Transitional resettlement allowances	1,028,320	1,152,000	1,152,000	
(c) Care of unaccompanied children	718,956	707,000	699,000	−8,000
(d) Distribution of surplus commodities	80,737	100,000	121,000	+21,000
(e) Hospitalization	3,057,365	4,122,000	5,250,000	+1,128,000
(f) State administration	1,821,796	2,402,000	2,819,000	+417,000
Subtotal (Florida)	18,554,610	24,265,000	29,174,000	+4,909,000
States other than Florida: Financial and medical assistance to needy resettled refugees	23,823,500	31,827,000	43,804,000	+11,977,000
Subtotal	42,378,110	56,092,000	72,978,000	+16,886,000
2. Resettlement	4,765,860	5,360,000	5,542,000	+182,000
3. Education:				
(a) Assistance to public schools in Dade County, Florida	13,681,158	15,135,000	17,838,000	+2,703,000
(b) Assistance to public schools in Union City and West New York, New Jersey			3,000,000	+3,000,000
(c) English and vocational training	904,623	900,000	1,000,000	+100,000
(d) Assistance to college students	3,812,299	3,926,000	4,988,000	+1,062,000
(e) Professional training and placement	381,782	300,000	300,000	
Subtotal	18,779,862	20,261,000	27,126,000	+6,865,000
4. Health services:				
(a) Refugee health clinic	1,401,523	1,751,000	2,078,000	+327,000
(b) Outpatient hospital services	269,921	361,000	460,000	+99,000
(c) Maternal and child health, and school health services	84,693	100,000	120,000	+20,000
(d) Hospitalization for long term illness	394,197	489,000	596,000	+107,000
Subtotal	2,150,334	2,701,000	3,254,000	+553,000
5. Transportation of refugees from Cuba	644,000	767,000	800,000	+33,000
6. Program administration	1,930,869	2,195,000	2,300,000	+105,000
Total, assistance to refugees in the United States	70,649,035	87,376,000	112,000,000	+24,624,000

BASIS FOR INCREASED ESTIMATE

Mr. PASSMAN. What accounts for this tremendous increase of $24,718,000 for fiscal 1971, Mr. Director?

Mr. PALMATIER. Underlying this estimate is the assumption that during 1971 the airlift operation from Cuba initiated in 1965 will continue at the same level as in the past, resulting in about 48,000 additional refugees arriving in Miami during the year.

Mr. PASSMAN. Arrivals would be at the same rate?

INCREASED WELFARE COSTS

Mr. PALMATIER. Yes, sir; we do not anticipate any great change, either, in the personal characteristics of those who will be arriving. About 70 percent of the increase for fiscal 1971 is for welfare services and hospitalization to needy refugees. Our assistance caseload as of December 31, 1969, was about 59,680, of which 30,680 were in Florida, and about 29,000 required welfare services outside of Florida. This was from a total registration of about 357,000 refugees who had registered with the program since its inception in 1961. Therefore, we will go into fiscal 1971, we believe, with an assistance caseload of about 66,500.

During the fiscal year 1971 we anticipate that we will be adding about 6,600 additional persons to the welfare assistance caseload in Miami, and about 9,800 outside of Florida. What we are feeling with respect to welfare is the cumulative effect of the continuing influx of refugees over a long period of time.

As you know, we are not only responsible for services to the newer refugees who arrive each year—that is, reception, resettlement, financial assistance, and health services as required—but we are also responsible under certain circumstances for all of those refugees who arrived in earlier years and are living in the United States.

Mr. PASSMAN. Hasn't that been true in the past, Mr. Director?

Mr. PALMATIER. That is right, it has.

Mr. PASSMAN. I do not like this a bit in the world. I am just as familiar with the operations of the Health, Education, and Welfare Department as I am with my overdrawn bank account.

You are talking about specialists in trying to find ways to throw away money, and they are the people in the Welfare Department. My State ranks about No. 2 in the Nation in that category.

You have workers out soliciting business and loading up the rolls for public welfare assistance.

I am wondering if this public welfare program, that is just about to bankrupt the United States and wreck our economy, is spreading to these Cuban refugees?

This is no different than what you had in the past other than you have stepped up the welfare assistance, is that correct? You said you were bringing in the same number.

Mr. PALMATIER. We are bringing in the same number.

Mr. PASSMAN. You are emphasizing public welfare assistance for these refugees, and that mainly would account for the additional $24 million in your program costs?

Mr. PALMATIER. It does.

It will represent about 69 percent of our additional requirement. I cannot speak to the domestic caseload, Mr. Passman.

Mr. PASSMAN. But it sounds to me when you say welfare, that you are putting them on the same type of welfare assistance the American people are getting.

AGE OF PERSONS ON WELFARE

Mr. PALMATIER. It is a fact that if a resettled refugee cannot make it, and the voluntary agencies are unable because of his health condition or his age to enable him to become self-supporting, the State of residence can put him on welfare and our program would then reimburse the State.

What we find in Miami, as an example, is that slightly in excess of 80 percent of the Cubans on welfare are 60 years of age and above.

(Discussion off the record.)

Mr. PASSMAN. Don't get your enthusiasm too high and make plans for spending this amount of money. We have already gone through the Budget and we find that the many different spigots of foreign aid is a billion three hundred million dollars above the total requested for foreign aid last year. That is why we are going to have to represent the taxpayer on this side of the table because, according to the Constitution, this is the first branch of Government, and it is our responsibility to hold the cost of these programs down.

It is not a personal matter, but I am very familiar with how the bureaucrats are getting to this administration in a lot of different items in the Budget. We will do the best we can for you, and we may have to have a much longer session than what we planned for this program to find out why it is necessary to take these people and put them on welfare, unless they are sick.

I sincerely believe there is a job for every able-bodied American, and for every able-bodied refugee if they are willing to accept a job in keeping with their qualifications. They canot all be AID directors and they all cannot be airplane pilots or postmasters, but there is a job for them. I think they ought to be offered a job before they are offered welfare assistance.

Mr. PALMATIER. I do not want to belabor my point, sir. I agree with everything you said.

Mr. PASSMAN. I am frightened at the cost of the welfare portion of your budget.

Mr. PALMATIER. I don't mean to imply merely because a person is 60 that he is not capable of self-support. We have a lot of refugees in Miami and elsewhere who are 60 and above who are working and self-supporting.

EFFORTS TO SECURE JOBS FOR REFUGEES

Mr. PASSMAN. How about the ones not working; were they offered jobs?

Mr. PALMATIER. We have working with the Florida State Department of Public Assistance an employment counseling team actually finding a lot of jobs for people 60 years of age and over.

Mr. PASSMAN. The welfare workers vote in my district just as the bankers do, but they are past masters at building up their caseload. I have had some experience trying to get some of these people on the welfare rolls to go to work.

You cannot get them to work because they are waxing fat with their welfare checks. This program is going to wreck our economy. I think the President recognizes that. I do not know whether the program will ever be brought under control or not, but I hate to see these Cuban refugees who are not U.S. citizens come here and be

exposed to these unemployed Americans who are living off the fat of the land, and then they, too, get on the welfare rolls. How many Cuban refugees have entered the United States since the inception of the program?

NUMBER OF CUBAN REFUGEES IN THE UNITED STATES

Mr. PALMATIER. The Department of State figures that about half a million have entered the United States since Castro came to power.

Mr. PASSMAN. How many have remained?

Mr. PALMATIER. I would assume that almost all are still here.

We have not had registered in our program all of the half million who came in.

Mr. PASSMAN. Let me ask you if I may, how many have registered with your agency?

Mr. PALMATIER. Through January 23, 1970, a total of 359,633 Cubans had registered at our center in Miami.

Mr. PASSMAN. How many have returned?

Mr. PALMATIER. To Cuba?

Mr. PASSMAN. Yes.

Mr. PALMATIER. I would have to get that information from the Immigration Service.

NUMBER OF ABLE-BODIED REFUGEES ON WELFARE

Mr. PASSMAN. How many refugees are on public welfare?

Mr. PALMATIER. As of last December 31, 59,680.

Mr. PASSMAN. Able-bodied but on welfare?

Mr. PALMATIER. Many of those on welfare are not able-bodied.

Mr. PASSMAN. How many of them? You are putting these people on welfare. If they are sick, that is one thing. But we want to know how many of these people are living off the fat of the land like millions of Americans who are able to work—but who like the welfare rolls better.

I hope you do not permit yourself to get exercised over this thing. This is your money we are trying to save. How are we going to find out how many of them that actually are able to work are on the welfare rolls?

Mr. PALMATIER. As I mentioned, we continually reexamine the financial assistance caseload in Miami. We have people who cull over the caseload constantly, to identify those who might benefit from vocational and English language training. We have about 550 people from the assistance caseload in vocational training and English language training at any given time. In addition to that, the Florida State Department of Public Assistance has one section that devotes itself exclusively to finding jobs for those on the welfare caseload.

Mr. PASSMAN. We have a similar agency in Monroe but some of the people seem to like welfare better and the caseworkers keep them on welfare.

What I want to know is how many able-bodied Cubans have come to the United States since the inception of the program and are now on public welfare.

Will you try to get that information for us?

Mr. PALMATIER. Yes.

Mr. PASSMAN. We are not going to mark up the bill until we get it.

Every year you come in here—not you, I am speaking of the agency—and these programs are mushrooming. We are just going to have to get on top of it. I think our President recognized the need.

This welfare program has been about the biggest failure in the history of our country. I think it will take about 20 years to get these people back into the productive end of our economy.

REFUGEE ARRIVALS DURING AIRLIFT PERIOD

Mr. SHRIVER. If the Chairman would yield, page 13 of the justification states between December 1, 1965, and December 31, 1969, 190,400 or almost 4,000 refugees a month have arrived in Miami from Cuba. This includes 175,900 that came via the airlift and 15,500 that escaped Cuba in small boats and through other countries. Isn't this what we are talking about, the figures that the Chairman asked for?

Mr. PALMATIER. This would be since airlift started in December 1965. The program, however, actually started in 1961.

Mr. SHRIVER. Do you have the figures with you as to the additional number to this figure that I just read?

Mr. PALMATIER. Since the program started in 1961, we have had a total number register with us of 359,633 as of January 23, 1970.

Mr. SHRIVER. Isn't that what the Chairman asked for?

Mr. PASSMAN. Yes, that is the only group you are concerned with. There are others coming in.

Mr. PALMATIER. Yes.

Mr. PASSMAN. You have about the same inflow you have had in the past.

Mr. PALMATIER. Yes.

Mr. PASSMAN. However, this year you are asking for an increase of almost 25 percent in your appropriation.

Mr. SHRIVER. I know that.

JOBS FOR THOSE ON WELFARE

Mr. PASSMAN. $24,718,000 increase, and 69 percent of it is to take care of those on welfare.

So I am trying to find out how many able-bodied Cubans are on the welfare rolls, and to see what kind of jobs they could get. Maybe they are all trying to be bookkeepers or airplane pilots. There are jobs for them.

I don't think the type of people you have administering these welfare programs in my State will ever find jobs for these people, because some of the recipients are smarter than the welfare workers.

We want to know the number of refugees you have on welfare.

Mr. PALMATIER. We can develop that.

Mr. PASSMAN. If you will, we will be very grateful.

(The information follows:)

NUMBER OF ABLE-BODIED CUBANS ON WELFARE

All Cuban refugees receiving public assistance in Miami, Fla., are classified as to potential for self-support. With regard to such potential, cases fall into two general groups: (a) Cases in which there is a member of the family who has an employment potential—that is, who through vocational training, English training,

necessary medical care, and the use of other available services and resources may obtain employment; and (b) cases in which the likelihood of self-support is nonexistent or remote because of a combination of factors such as age, health, mental state, and/or other disability or impairment of a chronic, long-term, or indefinite nature. These classifications are therefore approximately equivalent to able bodied and non-able bodied, respectively, except that it should be noted that category (a), cases with employment potential, may actually include non-able-bodied persons where a judgment is made that with appropriate medical and rehabilitative treatment a person may be enabled to become able bodied. Category (a) cases are worked with actively so that employment potential may be realized; arrangements are made for such services as medical care, rehabilitation, English and vocational training, care of children while mothers are in training, and job placement. This emphasis accounts for the success of the program in keeping the number of able-bodied cases at a very low level, with constant turnover as such cases are enabled to become self-supporting. As of the end of January 1970, 1,146 persons with employment potential were receiving assistance and in the process of rehabilitation in Miami; this was 3.7 percent of the total number of persons receiving assistance.

Outside of Florida, Cuban refugee welfare cases are handled through the regular machinery of State and local welfare agencies. These agencies do not maintain the type of classification utilized by the Cuban refugee program in Miami. Therefore it is not possible to classify these cases specifically as "able bodied" and "non-able bodied." On the basis of special studies, however, it is possible to relate the characteristics of refugees who are receiving assistance to the regular public assistance categories used in the domestic welfare program. The following shows the characteristics of refugee cases receiving assistance in New York City as of February 27, 1970:

	Percent
Old-age assistance	41.2
Aid to the blind	0.2
Aid to the permanently and totally disabled	5.1
Aid to families with dependent children	21.8
General assistance	31.7
Total	100.0

Among the AFDC-type cases, only 1.5 percent (81 cases) include unemployed fathers; the others are families in which the father has died, is disabled, or is absent.

The characteristics of assistance cases found in the New York City study are similar to those found in a special study carried out in October 1968 of the characteristics or refugee welfare cases in five States which account for approximately 80 percent of all refugee welfare cases outside of Florida.

Based on all available data, it is estimated that, at any given time, about 25 percent of the refugee welfare caseload outside of Florida includes able-bodied adults. The fact that most of the refugees who require assistance need such assistance for only short periods of time reflects the fact that the vast majority of the refugees become self-supporting almost immediately or soon after their arrival in the United States.

Analyses of length of time on assistance show the following:

Miami.—A special analysis was made of the total caseload receiving financial assistance as of February 1970 in the Miami area. It showed that 32 percent had been on assistance less than a year (15 percent less than 6 months); 17 percent between 1 and 2 years; 12 percent between 2 and 3 years; 13 percent between 3 and 5 years; and 25 percent over 5 years. Of the group on assistance for more than 5 years, 73 percent were over 65 years of age and 23 percent were between 50 and 65.

Other States.—Data available regarding duration of assistance to resettled refugees are based on a special study conducted late in 1968. This survey, made on a sample of cases in the five States where 80 percent of the Cuban refugees (outside of Florida) are receiving assistance, showed that 39 percent of the recipients received assistance for less than 6 months; 48 percent for less than 1 year; and only 1 percent for 5 years or more.

Mr. PALMATIER. The people get off the airplane with nothing but the clothes on their backs; we register them; the voluntary agencies and church groups work with us to accomplish resettlement. In many

instances the newly arriving persons will go temporarily on welfare for a month or a month and a half—until they find employment and can get off the welfare caseload; this also is one of the reasons the caseload is larger.

Mr. PASSMAN. Mr. Director, I am not quarreling with the system you have had in the past. You still have about the same program. But we find you are asking for a 25 percent increase, or $24 million, and 69 percent of it is to take care of those you put on public welfare.

What I am trying to find out is how many of these people are able-bodied and could work. There are jobs for them; make no mistake about that. They may not be the type of jobs they want. Some of these people are living pretty good, I understand, on these welfare programs. This thing has grown so that the fringe benefits and the amount of the welfare payments are much better than the wages of some of the so-called common labor jobs. If you will give us the number we will be satisfied.

ESTIMATE OF COST OF PROGRAMS IN FUTURE YEARS

It was stated in last years committee report that the committee is concerned as to what future appropriations will be needed to support this program. Is there any estimate whether this inflow of refugees will level off or increase in the future?

Are there any statistics on that potential cost?

Mr. PALMATIER. As to when the airlift might end, I think you know that it is a matter of national policy.

Mr. PASSMAN. I am familiar with that.

Mr. PALMATIER. We are responsible for the refugees once they arrive in the United States. With respect to the total number that we are talking about, the best information we have is that through May 1966, Fidel Castro allowed people to sign up to leave after President Johnson's October 1965 speech. About 250,000 did sign up to leave prior to that date.

We have taken in of the 250,000 to date about 178,000.

From this original group alone, this would leave an additional number of 72,000 on a purely statistical basis. Whether all of the 72,000 would come out or not, I am not in a position to say.

Mr. PASSMAN. I think this would be a statement of fact, would it not: That you have many Communist nations where some of the people are dissatisfied with the form of government?

Mr. PALMATIER. Most certainly.

Mr. PASSMAN. You just could not possibly accommodate all the people who may not like their form of government. We could not accept them all into this country, could we?

Mr. PALMATIER. No; we could not.

Mr. PASSMAN. I am wondering if some day we are not going to have to have a good close look at this program. I know this is our policy, but I am greatly concerned about this 25-percent increase in the program and 69 percent is going for public welfare.

Your are familiar with President Nixon's policy statement on public welfare in America. I actually think it has been the most unsuccessful program ever created by the mind of man. If we do not do something about it, it is going to break the backbone of our economy.

We will finally get to the point where half the people will be working to support the other half.

Has there been any discussion in the executive branch as to whether the United States is going to continue to accept refugees from Cuba indefinitely?

Mr. PALMATIER. Not to my knowledge.

Mr. PASSMAN. Is the policy under review?

Mr. PALMATIER. Not to my knowledge.

Mr. PASSMAN. Who would make the recommendation that this policy be reviewed? Would it come from the Executive or would it be a recommendation from the Hill?

Mr. PALMATIER. It probably would develop within the Department of State.

Mr. PASSMAN. You do not know of any plan at this time to review this policy?

Mr. PALMATIER. I personally do not know of any.

REFUGEES NOT REGISTERED WITH PROGRAM

Mr. PASSMAN. Thank you, Mr. Director. The refugees that have registered are the ones we are looking after, but you have another group that came in under other legislation or by other means and not under this program; is that correct?

Mr. PALMATIER. Yes, but they did not register with us.

Mr. PASSMAN. Did they register with any department?

Mr. PALMATIER. I think all of them that come in would have to be processed by the Immigration Service. Theoretically unless a person needs some type of service he does not register with us at all. Registration is voluntary.

Mr. PASSMAN. Does that other category of refugee participate in this program at all?

Mr. PALMATIER. No, they would not participate int his program because they never registered with this program.

Mr. PASSMAN. Are they getting any subsistence out of the welfare program under HEW?

Mr. PALMATIER. No.

Mr. PASSMAN. Did you say about 159,000?

Mr. PALMATIER. About 150,000.

Mr. PASSMAN. In other words, about one-third of the Cuban refugees are here under some other program or come in by some other means. They are not on your list.

Mr. PALMATIER. That is right. They are not registered with our program.

NUMBER NOT REGISTERED WITH PROGRAM THAT MAY RECEIVE WELFARE UNDER OTHER PROGRAMS

Mr. PASSMAN. Are they self-supporting?

Mr. PALMATIER. Theoretically they would be.

Mr. PASSMAN. Theoretically, but are they? How many are on public welfare? Is there any way we can find that out? You know Tommy will tell Johnny how easy it is to get on public welfare. It is much better than working. How can one get some information on the other

150,000? We do have two groups of Cuban refugees in this country: One, those that registered with your agency, for which you are asking an appropriation to support and to finance additional refugees. We want some information on the second group of 150,000.

Mr. PALMATIER. I do not think there would be two different groups. They would have all come in from Cuba, but of the total that have come in all of them would not have found it necessary to register with us for a service.

Mr. PASSMAN. Mr. Director, that is exactly what we are trying to find out. You do have two groups. You have one group that registered with you, about 359,000 refugees.

Mr. PALMATIER. Yes.

Mr. PASSMAN. Then you have an additional 150,000 Cubans that came from Cuba during the same period but did not register with your program. I am trying to find out whether we are giving the second group any type of subsistence under some other program.

Mr. PALMATIER. I think the overwhelming majority of them are self-supporting. We can attempt to develop something more specific and we most certainly will.

(The information follows:)

NUMBER OF CUBANS NOT REGISTERED WITH PROGRAM WHO MIGHT BE ON OTHER WELFARE PROGRAMS

Federal welfare officials advise that no separate data are maintained by State welfare agencies which would permit identification of Cuban refugees who might be included on regular domestic welfare programs. They estimate, however, that such a number would be exceedingly small since all States are pressed for welfare funds and Cuban refugee assistance offers 100-percent Federal reimbursement while inclusion of any refugees on domestic programs would necessitate the expenditure of State and local funds.

Mr. PASSMAN. These people may also be getting on public welfare. We look at this estimate of $112 million and we think this is the total cost of the Cuban refugee program. That may not be so. It that right?

Mr. PALMATIER. It is possible.

Mr. PASSMAN. That is what we are trying to find out.

Mr. PALMATIER. I think the majority would be self-supporting.

Mr. PASSMAN. Put some of your researchers on that question and we may have another session on it.

Mr. PALMATIER. Otherwise they would register with us for services and help.

Mr. PASSMAN. Some of these people may be getting on some other welfare rolls. I cannot imagine you handling 359,000, and there are an additional 150,000 that are completely self-supporting. I am concerned about what has happened to the 150,000. Try to help us on that.

Mr. BAKER. Many of this group came in the early period, were the

more affluent Cubans, had money in this country, and spoke English. I think the chances are very few would be on public welfare.

Mr. PASSMAN. You are still talking about a very few. We want to find out how many. You are guessing like I am. You do not know, do you?

Mr. BAKER. No.

Mr. PASSMAN. It could be half of them and you will not know until you do some research, is that correct?

Mr. BAKER. That is right.

Mr. PASSMAN. How about doing that for us. We may have another refugee program operating under another agency that may be bigger than this one. We do not know. But we want to find out before we mark up the bill.

NUMBER OF REFUGEES RETURNING TO CUBA

How many that registered with your agency returned to Cuba?

Mr. PALMATIER. We do not have information in our agency on the number that have returned to Cuba.

I will try to get this from the Immigration Service and submit it for the record.

Mr. PASSMAN. Don't you think that is pertinent information? A lot of these people are going back, are they not?

Mr. PALMATIER. I don't think a lot are. I think last year we got this information for the record, and the Immigration record indicated that less than 30 had gone back.

Mr. PASSMAN. For 1 year?

Mr. PALMATIER. I think this is cumulative.

Mr. PASSMAN. Can you bring it up to date for us and let us know how many have gone back to Cuba?

Mr. PALMATIER. We will.

(The information follows:)

NUMBER OF CUBANS WHO HAVE RETURNED TO CUBA

Discussions with the Immigration and Naturalization Service and the Department of State indicate that approximately 400 Cuban nationals in the United States have requested permission to return to Cuba, and the Government of Cuba has granted permission to 27 of these persons. The 400 persons who have requested such permission—out of the estimated 500,000 Cuban refugees who have come to the United States—are mostly aged persons who wish to be reunited with family members still in Cuba. The Department of State also advises that some Cuban nationals may have returned to Cuba via third countries; the number is estimated to be very small.

NUMBER OF CUBANS RECEIVED IN 1969

Mr. PASSMAN. How many refugees were received from Cuba last year? How does this break down on a weekly basis? Could you put that in the record?

(The information follows:)

NUMBER OF CUBAN REFUGEES RECEIVED, BY WEEK, CALENDAR YEAR 1969

Week ending (1969):	Number
Jan.—	
4	576
11	969
18	926
25	921
Feb.—	
1	893
8	950
15	935
22	727
29	925
Mar.—	
8	886
15	878
22	913
29	876
Apr.—	
5	901
12	874
19	884
26	886
May—	
3	741
10	876
17	879
24	905
31	725
June—	
7	883
14	930
25	957
28	940

Week ending (1969)—Continued	Number
July—	
5	790
12	991
19	973
26	828
Aug.—	
2	978
9	952
16	972
23	785
30	1,126
Sept.—	
6	757
13	814
20	972
27	931
Oct.—	
4	941
11	955
18	960
25	907
Nov.—	
1	917
8	967
15	797
22	934
29	742
Dec.—	
6	950
17	934
20	934
27	311
Total	45,874

NUMBER OF CUBANS RECEIVING WELFARE, AND NUMBER THAT ARE SELF-SUPPORTING

Mr. PASSMAN. Will you insert in the record a comparison like that which appeared on page 130 of last year's hearings, and update it?

Mr. PALMATIER. Yes, sir.

(The information follows:)

CUBAN REFUGEE PROGRAM

	Total number of registrations	Number receiving Welfare assistance and services	Total number in families that are self-supporting	Percent of self-supporting
June:				
1961	29,628	13,756	15,872	53.6
1962	102,219	55,084	47,128	46.1
1963	165,523	53,170	112,353	67.9
1964	172,572	32,110	140,462	81.4
1965	177,599	21,588	156 011	87.4
1966	207,147	19,882	187,265	90.4
1967	250,519	29,346	221,173	88.3
1968	290,353	39,370	250,983	86.4
1969	332,692	52,740	279,952	84.1
1970 (estimate)	380,092	66,580	313,512	82.5
1971 (estimate)	428,092	83,016	344,984	80.6

PENDING APPLICATIONS FOR ENTRY

Mr. PASSMAN. Mr. Director, how many Cubans are waiting to enter the United States at this time?

Mr. PALMATIER. We do not have specific information on it. The best information we have from the Department of State is that 250,000 registered to leave with the Cuban Government; 178,000 have

come out, which would leave on a purely statistical basis approximately 72,000 still to come from the original group that registered to leave on the basis of the memorandum of understanding that was negotiated between the two governments in 1965.

Mr. PASSMAN. Through what neutral government?

Mr. PALMATIER. The Swiss Government represented the United States.

Mr. PASSMAN. Do you have a record on the pending applications in your agency?

Mr. PALMATIER. Sir, the way the operation works is that we receive from time to time through the State Department from the Swiss Embassy in Havana lists of persons who signed up to leave whom the Cuban Government is willing to let out. We have about 20,000 to 25,000 names in process at any given time.

PER CAPITA INCOME IN CUBA

Mr. PASSMAN. Living conditions in Cuba are and always have been far below the U.S. standard, is that true?

Mr. PALMATIER. Living conditions are certainly not as good as they are in this country.

Mr. PASSMAN. Let us make a point, if we may. It is true that the standard of living in America is the highest of any Nation in the world?

Mr. PALMATIER. It certainly is.

Mr. PASSMAN. I think the Cuban standard is somewhat like all the other Latin American nations, isn't that true?

Mr. PALMATIER. It was similar, yes. Perhaps a little higher.

Mr. PASSMAN. What would you say the per capita income of Cuba is?

Mr. PALMATIER. I do not know it. We can get it for the record.

(The information follows:)

ECONOMIC LEVEL OF CUBA AND IMMIGRATION

The latest available data is for 1967. In 1967, per capita gross national product for Cuba, expressed in U.S. dollars, was $330, compared with $3,670 for the United States.

In 1949, Cuba ranked fourth among Latin American nations in per capita national income, and in 1957, second. During 1961–67, Cuba experienced a decline of 0.8 percent in per capita gross national product while most other Latin American nations experienced an increase; as a result, Cuba ranked 10th among Latin American nations in 1967.

Per capita national income in Cuba has always been only a fraction of that in the United States. However, immigration from Cuba to the United States remained at a low level until Castro established a revolutionary movement in Cuba during the latter part of the 1950's and assumed power in 1959. This is indicated by immigrant visas issued to Cubans by the United States during the decade 1949–58, preceding Castro's taking control of Cuba. Immigrant visas for the decade totaled 74,731. During the first 6 years of the decade, 1949–54, visas averaged 3,923 per year. When Castro reentered Cuba in 1955 and established a revolutionary movement in the mountains, immigrant visas jumped from 5,882 in 1954 to 10,194 in 1955. During the last 4 years of the decade, marked by the guerrilla warfare which preceded Castro's assumption of power, immigrant visas averaged 12,799 per year—three times the average of the preceding period.

(Sources: World Bank Atlas, Washington, D.C., International Bank for Reconstruction and Development, 1969 (data for 1961–67). Un estudio sobre Cuba. Miami, Fla., University of Miami Press, 1963, p. 843 (data for 1957). National Income and Its Distribution in Undeveloped Countries, United Nations Statis-

tical Papers, series E, No. 3, 1951 (data for 1949). U.S. Immigration and Naturalization Service (immigrant visa data).)

Mr. PASSMAN. According to your present understanding, their standards were much lower than ours?

Mr. PALMATIER. Yes.

INDIVIDUAL STATES SET AMOUNT OF ASSISTANCE

Mr. PASSMAN. These refugees that you are putting on the welfare rolls, do you extend to them the same fringe benefits and the same amount per week as you do Americans that go on welfare rolls?

Mr. PALMATIER. Yes, we do. That is the arrangement we have with the individual States.

Mr. PASSMAN. Are these people permitted to write to their relatives in Cuba?

Mr. PALMATIER. Yes; they can write to their relatives in Cuba. The mail does not go direct, of course. It goes through Spain, Mexico, or Canada.

Mr. PASSMAN. You get the point I am trying to make.

Mr. PALMATIER. I think a lot more people than those who signed up to leave would like to come to this country, yes.

Mr. PASSMAN. There is no doubt. If they keep getting letters from the kinfolk in the United States, this program may really grow. Of course, with much of the money being used for welfare payments, it could get out of control. You see the point.

Mr. PALMATIER. Yes, I do.

PERCENT OF CUBANS AND OF AMERICANS ON WELFARE

Mr. PASSMAN. As of the last date, what is the actual number of the 359,000 refugees under your jurisdiction that are actually unemployed?

Mr. PALMATIER. The best information I could give you are those on welfare.

Mr. PASSMAN. How many?

Mr. PALMATIER. As of December 31, we had 59,680 on welfare.

Mr. PASSMAN. What percentage of 59,000 would be 350,000?

Mr. BAKER. Around 20 percent; really 17 percent.

Mr. PASSMAN. What percentage of Americans are on public welfare?

Mr. PALMATIER. I cannot be responsive to that question. I can get it for the record.

(The information follows:)

The National Center for Social Statistics, Social and Rehabilitative Services, Department of Health, Education, and Welfare, reports that in June 1969, cash payments were made to or on behalf of 10.2 million needy Americans under General Assistance (all State/local funding) and the federally aided public assistance programs; another 1.5 million Americans had medical bills paid on their behalf under the public assistance programs in the month of June 1969. The combined number aided of 11.7 million represents 5.8 percent of the total estimated U.S. civilian population of 202.6 million last June.

Mr. PASSMAN. They may be outsmarting the Americans in getting on the welfare rolls. Off the record.

(Discussion off the record.)

RESETTLEMENT GRANTS

Mr. PASSMAN. I notice you estimate 25,000 refugees will require assistance upon being resettled. That is a bit confusing. We have 59,000 on the welfare rolls now, and this is an additional 25,000. Are we talking about a different category now?

Mr. PALMATIER. I believe you are referring to the transitional resettlement grant. We estimate about 26,000 persons will require this in 1971.

AVERAGE MONTHLY WELFARE PAYMENT IN FLORIDA

Mr. PASSMAN. What is the average monthly payment to a Cuban refugee on welfare?

Mr. PALMATIER. In Miami, Fla., the average is about $42 per person.

Mr. PASSMAN. That is per week or per month?

Mr. PALMATIER. Per month, sir.

Mr. PASSMAN. It does not include other benefits they may get in the way of medical services or medicine?

Mr. PALMATIER. It would not include medical assistance; that is correct. It would be only welfare payments.

Mr. PASSMAN. Let us use a family of a father, mother, and four children; what would they get?

Mr. PALMATIER. They would get a maximum of $100 per month.

SURPLUS COMMODITIES

Mr. PASSMAN. Plus the other fringe benefits we mentioned.

Mr. PALMATIER. Plus surplus commodities and hospitalization.

Mr. PASSMAN. They would get surplus commodities?

Mr. PALMATIER. Yes.

Mr. PASSMAN. And in many instances the value of the surplus commodities would be three or four times the amount of the cash subsidy, would it not?

Mr. PALMATIER. It would certainly add to the total they get.

Mr. PASSMAN. People spend a good deal of their money for commodities. That is part of the game of life, to take your money and buy commodities to live on. As the head of a household, a large percentage of your salary goes to pay for commodities, does it not?

Mr. PALMATIER. Yes.

Mr. PASSMAN. If you give me free commodities, clothing, medicine, and doctor services, I would have very little use for money. Do you get the point?

Mr. PALMATIER. Yes.

Mr. PASSMAN. Thank you.

Mr. PALMATIER. With respect to surplus commodities, this program pays only for the distribution of the food and the storage.

Mr. PASSMAN. I know that, but the refugees get the commodities nevertheless.

Mr. PALMATIER. Yes, and there is a dollar value.

Mr. PASSMAN. If you give a man a barrel of flour, you may pay for the storage, but some other agency pays for the barrel of flour.

Mr. PALMATIER. That is right. In fiscal 1969 we did use $1,250,000 worth of surplus food in Miami.

Mr. PASSMAN. You keep talking about Miami. This program is much broader than just Miami, is it not?

Mr. PALMATIER. It is.

(Discussion off the record.)

RESETTLEMENT AS PART OF FAMILY REUNION

Mr. PASSMAN. You state in the justifications that 75 percent of the refugees now entering the country are resettled immediately to States other than Florida, is that right?

Mr. PALMATIER. That is right. Since December 1, 1965, it has been a family reunion type operation, and many of those coming in join relatives outside of Miami.

Mr. PASSMAN. In other words, you get the whole family together.

Mr. PALMATIER. That is correct. When President Johnson initiated the airlift, he directed the State Department to give that part of the agreement the highest priority.

CUBANS BECOMING U.S. CITIZENS

Mr. PASSMAN. That is a very nice thing to do, to get them all together. How about the children of the refugees, are they Cubans or Americans?

Mr. PALMATIER. They are Cubans when they first come in.

Mr. PASSMAN. I am talking about the Cuban refugees that have children born in the United States.

Mr. PALMATIER. They are American citizens if they are born in the United States.

Mr. PASSMAN. That is what I understood.

Mr. PALMATIER. An increasing number of adults are becoming American citizens. As an example, in fiscal 1969 about 10,000 on a nationwide basis were naturalized as American citizens.

U.S. YOUTH GOING TO CUBA TO CUT SUGARCANE

Mr. PASSMAN. Your appropriation does not pay for the cost of the hundreds of American youngsters that are going to Cuba to harvest sugarcane, does it?

Mr. PALMATIER. Most certainly not.

Mr. PASSMAN. I understand there was a group of about 600 that left to go to Cuba to harvest sugarcane. They were American citizens, I believe.

Mr. PALMATIER. I read the account in the newspaper.

Mr. PASSMAN. It looks as if you would do more than read it in the newspaper. Aren't you interested in the fact that so many Americans are going to Cuba to harvest sugarcane for Castro?

Mr. PALMATIER. Certainly I have an interest. The same type of interest that any American has.

Mr. PASSMAN. Then I ask you the question as to what extent are we going to punish those people? Can they just go and come at will just as long as they go through a nation like Canada?

Mr. PALMATIER. I do not think I can answer that. I can attempt to develop something for the record on the basis of conversations with State and Justice, but I certainly cannot answer the question, sir.

Mr. PASSMAN. Mr. Director, this all deals with the situation in Cuba. We have Cubans coming out on Tuesday whom we are immediately resettling and putting them on welfare, and then on Wednesday we have hundreds of Americans going to Cuba to harvest sugarcane. Either they are a bunch of radicals—and I think they are—or——

Mr. PALMATIER. So do I.

Mr. PASSMAN. I do not think they are good American citizens. I wonder if these people are naive and are being misled that conditions are not as they are supposed to be?

Don't you think that we should develop something on this matter?

Mr. MILLER. Mr. Chairman, let me make quite clear that no authority under which this program operates would give us any cognizance over or would we have any knowledge about U.S. citizens and their activities in Cuba. That would be entirely a matter for other departments.

Mr. PASSMAN. If you are only urging and recommending this program because you think the conditions are such that it is justifiable——

Mr. PALMATIER. I certainly do.

Mr. PASSMAN. And if the 600 Americans that left understood that differently than you do—don't you think that you should, as a responsible agency of Government, find out what is attracting these people to Cuba?

Mr. PALMATIER. Personally, I think propaganda is attracting them to Cuba, the same type of propaganda that the Communists have been using in Europe and elsewhere.

They consistently use it.

Mr. PASSMAN. If I were sitting in your position, I would want to know what attracted these people to Cuba. Could it possibly be that this situation is different than the intelligence or information being given to us?

Mr. PALMATIER. We talk to refugees who do come out of Cuba. They say conditions within Cuba are getting worse, not better, with respect to availability of food, medical services and the like. I cannot answer the question as to why American students choose to go to a Communist country. I have personal feelings about it, and I believe that they are akin to your own. I think they are kooks.

Mr. PASSMAN. I think so, too. But, Mr. Director, let us look at the record.

Mr. PALMATIER. We will, sir.

PRE-CASTRO CUBA

Mr. PASSMAN. Had we continued to back Batista, and not followed our intelligence reports and backed Castro, which permitted Batista to be run out of Cuba we probably would not be in this mess today. You certainly agree with me, do you not, that we followed the wrong course in that instance? We were misled by our intelligence.

Mr. PALMATIER. I think many were misled by someone about Fidel Castro.

Mr. PASSMAN. At least Batista was pro-United States in supporting our policies.

Mr. PALMATIER. I don't know much about pre-Castro Cuba, sir.

Mr. PASSMAN. You heard about it or read it in the newspapers, did you not?

Mr. PALMATIER. Yes; I have heard it.

Mr. PASSMAN. You have not heard it denied that Batista was pro-American. We followed the recommendations of our intelligence and backed Castro.

Mr. PALMATIER. I have heard that. That is right.

Mr. PASSMAN. Don't walk into that same trap again. Maybe some of these Cubans that are coming in are outsmarting us. I think the State Department ought to look at this policy. If it was trapped once, it could be trapped again. Isn't that possible?

Mr. PALMATIER. Yes.

REQUEST FOR FUNDS FOR SCHOOL ASSISTANCE TO TWO NEW JERSEY TOWNS

Mr. PASSMAN. It is noted that for the first time $3 million is requested for assistance to elementary and secondary public schools in two townships in New Jersey: Union City, and West New York, is that correct?

Mr. PALMATIER. That is correct.

Mr. PASSMAN. How was it determined that these two townships would qualify for assistance?

Mr. PALMATIER. The way the New Jersey situation developed, Mr. Passman, is as follows: In October of 1969 some of the school officials from Union City and West New York, the two communities we are talking about, came down to Washington and had discussions with Congressman Daniels and members of our Department with respect to the growing concern the two communities had about the number of Cuban refugee children entering their two school systems. We agreed that with the assistance of the Office of Education we would go up and take a look at the situation.

Mr. PASSMAN. Does this come out of your appropriation?

Mr. PALMATIER. Yes.

NUMBER OF REFUGEES IN UNION CITY AND WEST NEW YORK, N.J.

Mr. PASSMAN. How many refugees do you have in those two townships?

Mr. PALMATIER. As of December 31, 1969, there were 42,722 that we had resettled in New Jersey.

Mr. PASSMAN. You insisted on limiting this interrogation to your program, did you not? That is, the number that is registered under your program?

Mr. PALMATIER. That is what I am giving you.

Mr. PASSMAN. Very well.

Mr. PALMATIER. About 10,622 Cubans were resettled directly to these two communities by our program as of September 1969.

Mr. PASSMAN. To use round figures, 10,000?

Mr. PALMATIER. Yes.

Mr. BAKER. That is the resettlement figure.

NUMBER OF PERSONS RECEIVING WELFARE IN UNION CITY AND WEST NEW YORK

Mr. PASSMAN. Would you assume that the same percentage of that 10,000 would be on welfare as are on welfare in other areas?

Mr. PALMATIER. The last figure we have for those two townships indicate about 13.3 percent are on welfare.

Mr. PASSMAN. The other 87 percent are working?

Mr. PALMATIER. That is right.

Mr. PASSMAN. Don't they pay the same taxes as all the other citizens?

Mr. PALMATIER. They do.

Mr. PASSMAN. So in reality this $3 million for these two townships does not mean a subsidy for the 10,000 refugees. It is only for 13 percent of the 10,000 refugees. You have 10,000 refugees in the two townships, of which 13 percent are on welfare. The other 87 percent are contributing to the local economy just like Americans, are they not? So you have to look at the 13 percent of the 10,000 refugees that are a hardship on the local community.

What would that number be?

Mr. BAKER. That would be 3,450, based on total refugees in the two towns which actually approximates 24,000.

Mr. PASSMAN. Of the $3 million, how much would that be per recipient?

Mr. BAKER. The welfare payment in West New York——

Mr. PASSMAN. I am not talking about the welfare payment. I am talking about the educational subsidy you propose.

Mr. BAKER. I think we have to bring out there are a lot more Cubans in these two communities than the program resettled directly.

Mr. PASSMAN. You already made the case that the other 9,000 or so are self-supporting and are not on a welfare program.

MOVEMENT OF ADDITIONAL CUBANS INTO UNION CITY AND WEST NEW YORK

Mr. BAKER. No. Other Cubans, registered with the program, have moved into these two towns from their original resettlement site—for example, from New York City.

Mr. PASSMAN. I took your figure of 10,000.

Mr. BAKER. That is only what we resettled directly there.

Mr. PASSMAN. We are talking about the resettled refugee.

How many other are involved?

Mr. BAKER. There were another 14,000 Cuban aliens, according to the alien registration in January 1969, that were living in these two towns in addition to some 8,300 resettled directly by the program as of that date.

Mr. PASSMAN. You people have been led into a trap by some politician. Don't you know that good news stays at home and bad news travels? Don't you know this proposition will break out all over America, and I guess the most effective lobbying group that we have in America today are the educators. Federal aid to education is a new thing, is it not? It is a relatively new program.

Mr. PALMATIER. Sir, I don't know the answer to that.

Mr. PASSMAN. They have developed a lobbying group such as I have never witnessed before.

I believe they are getting to you. Don't you know this program is going to spread throughout America wherever you have Cuban refugees?

Mr. BAKER. These two school systems had over 35 percent Cubans in them last October and are rapidly approaching 50 percent Cuban enrollement. We have not found any other school systems that have this great a percentage.

NUMBER ON WELFARE AS INDICATOR OF NEED FOR SCHOOL ASSISTANCE

Mr. PASSMAN. You have already established for the record that 87 percent of the Cubans settled in those two communities have jobs and are paying taxes just like other Americans, is that correct?

Mr. PALMATIER. That is correct.

Mr. PASSMAN. So you have to make your case strictly on the basis of those who are not working and are a charge to the community. Isn't that a fair statement?

Mr. PALMATIER. I think it certainly is a very valid point.

Mr. PASSMAN. You have to use the mathematics to know what you have been led into.

Mr. PALMATIER. I think what is disturbing the school people up there as the case was presented to us is that in the two communities of West New York and Union City, N.J., they were two communities that were losing population to other suburbs, which made some housing available. The other point they make, and they have statistics to support it, is that these two school systems, prior to the influx of Cuban refugees were losing students; the downward trend in school expenditures was suddenly reversed due to the Cuban influx.

Mr. PASSMAN. Don't they get the same subsidy out of the regular Federal aid to education appropriation as other schools in America do?

I do not want to belabor the point but you have to make your case for this $3 million grant on the basis of the number of refugees on welfare that are not contributing to the local tax system that supports those schools. These people are getting the same subsidy that other public school systems in America are getting out of the regular education appropriation bill that is on the House floor now.

Mr. PALMATIER. I am not totally familiar with the bill but certainly if they have children there whose parents are in the military or employed by the Government, they would be getting a subsidy.

Mr. PASSMAN. You do not think this subsidy is limited to areas where you just have Government installations; do you? It covers the waterfront.

Mr. PALMATIER. When you get into construction and other areas yes, it does.

Mr. PASSMAN. It covers the entire waterfront. I think we better analyze regardless of how many Cubans are there. If 87 percent are employed, they are contributing to the local economy and paying taxes, are they not?

Mr. PALMATIER. Yes, we would agree with that.

Mr. PASSMAN. You have to take 13 percent, if that is the figure, that are on welfare. These people are making their case on the grand total rather than the small percentage that is not contributing to the local economy, and I am afraid this is going to spread.

ADDITIONAL EXPENSES DUE TO LANGUAGE BARRIER

Mr. BAKER. There are additional expenses like teaching English to the Spanish-speaking Cubans and this sort of thing that the ordinary citizen would not cover with his taxes.

Mr. PASSMAN. The teacher can just teach so many students. These are grammar schools, are they not?

Mr. PALMATIER. I think the point Mr. Baker was making, and the school officials did make it, is that if you have 35 or 40 percent of your children entering the school system during a relatively short period of time who speak nothing but Spanish, it does put an additional burden on the school system in coming up with bilingual teachers, training aids, and so on.

OPERATING IN 1970 UNDER CONTINUING RESOLUTION

Mr. PASSMAN. In fiscal 1969 we appropriated approximately $72,500,000 for this program. At the present time 7 months have elapsed in this fiscal year and you have been operating at this $72½ million level for 7 months, is that correct?

Mr. PALMATIER. That is correct.

Mr. PASSMAN. Now that the bill has been signed into law for fiscal 1970, you will be able to operate at the increased level of $87.3 million, is that correct?

Mr. PALMATIER. That is correct.

Mr. PASSMAN. Did you have a satisfactory operation when you were operating at $72.5 million?

Mr. PALMATIER. We had a satisfactory operation with the exception that we had not concluded our arrangement with Dade County to provide them with funds, once again to offset the additional costs they have.

Mr. PASSMAN. Then you did not operate on the continuing resolution formula, did you? You let certain obligations accrue that you knew subsequently you would have to pay.

Mr. PALMATIER. No.

Mr. PASSMAN. Then you will not use your entire appropriation for fiscal 1970, will you?

Mr. PALMATIER. We think we will.

Mr. PASSMAN. You only have 5 months to go at the increased figure. Are you going to make these expenditures to a retroactive date?

Mr. BAKER. Since we postponed the contract with Dade County, for example, we believe we can now approve a higher rate than would have been possible earlier.

Mr. PASSMAN. Then you did have obligations that accrued? You were not operating according to the true formula of the continuing resolution?

Mr. BAKER. We put Dade County on notice that if we did not receive the higher appropriation then they would not be able to receive more money than they received in 1969.

Mr. PASSMAN. So you did not operate according——

Mr. PALMATIER. I think we did.

Mr. PASSMAN. Wait just a minute. You did not operate according to the true continuing resolution formula.

If so, you would have operated your program on the basis of $72,500,000. You operated on that basis, but at the same time you built up a contingency that you are going to have to meet and Dade County is looking for it.

What are you going to do in the last 5 months is to operate at a level of $87.3 million. Then you are going to take out of that appropriation and make your payment to Dade County retroactive to the beginning of this fiscal year, is that right?

Mr. BAKER. The contract will cover the school year.

Mr. PASSMAN. So you did not actually operate on the basis of the continuing resolution and I am afraid a lot of the other agencies operated the same way. That is why I do not believe the President's budget can be balanced.

REIMBURSEMENT FOR SERVICES OF OTHER AGENCIES

You mention in the justifications that certain facilities of the Immigration and Naturalization Service and the Departments of Agriculture and Justice are used.

Do you reimburse these agencies for their assistance?

Mr. PALMATIER. Yes, we do in one instance.

Mr. PASSMAN. Put the amount in the record, if you will.

(The information follows:)

The Immigration and Naturalization Service of the Department of Justice receives reimbursement for processing the refugees. For fiscal year 1970 it is estimated the reimbursement will amount to approximatey $125,000, and for 1971, $130,000.

REFUGEES' AGE AS A FACTOR IN FINDING WORK

Mr. PASSMAN. You indicate in the justifications that a greater number of refugees arriving in the United States are in the older age bracket and not capable of self-support, is that right?

Mr. PALMATIER. That is correct.

Mr. PASSMAN. Where do you think old age begins? In other words, at what age?

Mr. PALMATIER. I think old age for the purposes of our program begins when a person is not capable for reasons of age of self-support.

Mr. PASSMAN. At what age do you think a man is old? When does old age begin?

Mr. PALMATIER. We find in our program, for example, that between ages 18 and 55, it is relatively easy for any able-bodied man to get some type of employment. After 55 it becomes gradually more difficult.

Mr. PASSMAN. Selling apples, peanuts, or papers is a decent occupation, is it not?

Mr. PALMATIER. Of course.

Mr. PASSMAN. Have you ever suggested to these people that they develop a trade of that type, something that a person 85 years old could do.

Mr. PALMATIER. This is one of the reasons that I would urge you and other members of the committee to come down to Miami. I talk about Miami because it is the one area where you have a tremendous concentration of Cubans. I think you will see Cubans doing all of the the things that you mentioned.

Mr. PASSMAN. I am just afraid that you will have a program that will be with us long after I have left the Congress. We better start controlling some of these smaller programs, gentlemen, because we have some 2,868 Federal departments, agencies, bureaus, offices, boards, and so on in the Federal Government. When you put all these little programs together they amount to tens of billions of dollars. We are building up many statutory obligations.

Mr. PALMATIER. As long as this airlift continues, the costs are going to increase, I agree with you.

Mr. PASSMAN. This is only one of literally thousands of programs that are increasing in cost, and when you put all this together it amounts to tens of billions of dollars. I do not think we are ever going to be able to get on top of it unless some of us on this side of the table face up to our responsibilities. We must start trying to put some sense into these programs.

Let them miss a few meals. Some people can live on two meals a day.

SOCIAL WORKERS HELP INCREASE WELFARE ROLLS

We listen to too many of these people who say we have so many Cubans here now and we need a certain amount of money for our program. I wish you would watch these welfare workers. This is no indictment of you. But believe me, there is an art, and they have mastered it, on how to get people on welfare. They solicit business just as you would do if you were driving a drycleaning or laundry truck. They look for business. You know that is true. This welfare program has been built up in America to the point where it is frightening. I think the President recognizes it.

I do not know whether we will pass any reforms or not. I believe the whole program needs to be reformed.

You state that in fiscal 1969, 72 percent of the refugees receiving financial assistance in Miami received surplus food. You also stated that only 13 percent are on welfare. So it simply means that over 55 percent of those who received surplus food, also had jobs from which they received compensation, is that correct?

REFUGEES RECEIVING SURPLUS FOOD

Mr. BAKER. The 72 percent receiving surplus food refers to a percent of the welfare group in Miami.

If they are not on welfare, they do not get surplus food.

Mr. PASSMAN. The 13 percent is the nationwide figure. That is the percentage of Cuban refugees, lower in some places and higher in others, that are on welfare, is that correct?

Mr. BAKER. That are on welfare of the total Cuban refugees, that is correct.

Mr. PASSMAN. Then we are talking about 72 percent of the 13 percent that are on welfare, is that right? So 28 percent of the 13 percent did not receive surplus foods. Why not?

Mr. PALMATIER. Sir, we use surplus food only in Miami. Surplus food is not given to all of the welfare recipients because of special diets many of the elderly must follow; lack of cooking facilities and refrigeration; and the very temporary need for welfare of many of the new arrivals until they become self-supporting.

Mr. PASSMAN. It does not apply in all areas?

Mr. PALMATIER. No, sir. Seventy-two percent of those on the assistance caseload in Miami received surplus food. A certain percentage do not.

AVERAGE MONTHLY WELFARE PAYMENT OUTSIDE OF FLORIDA

Mr. PASSMAN. I notice in the justification that the monthly cost per person aided outside of Florida averaged $84.90 in fiscal 1968, $87.92 in fiscal 1969, and you estimate that the same cost will be $90 in fiscal 1970, and that it will increase to $94.50 in 1971, is that correct?

Mr. PALMATIER. Yes, sir.

Mr. PASSMAN. Is that brought about by the reduced purchasing power of the dollar?

Mr. PALMATIER. Certainly in part, yes.

Mr. PASSMAN. And the decreased purchasing power of the dollar is brought about mainly by Government's excess spending, is it not?

Mr. PALMATIER. Possibly.

Mr. PASSMAN. When the Government spends more than it takes in, it only dilutes everybody's dollars by that same amount, is that not right?

Mr. PALMATIER. Yes; I suppose it must have some effect.

Mr. PASSMAN. You see how everything is relative when you run it down.

VOLUNTARY AGENCIES HELPING WITH RESETTLEMENT

Would you list for the record the voluntary agencies with whom the Federal Government has contracted to resettle Cuban refugees?

(The information follows:)

United States Catholic Conference (USCC), Catholic; Church World Service (CWS), Protestant; United Hebrew Immigrant Aid Society (HIAS), Jewish; International Rescue Committee (IRC), nonsectarian.

Mr. PASSMAN. Also indicate what the voluntary agencies do for the refugees, and how much you pay them per refugee.

Mr. PALMATIER. Yes, sir; we will submit that for the record.

(The information follows:)

FUNCTIONS PERFORMED BY VOLUNTARY RESETTLEMENT AGENCIES

The four national voluntary resettlement agencies which work under contract with the Cuban refugee program carry out all arrangements for resettlement of refugees. The three religious agencies—United States Catholic Conference, Church World Service (Protestant), and United HIAS Service (Jewish)—work through local parishes, churches, and synagogues in resettlement cities, and the nonsectarian agency, International Rescue Committee, works through local affiliates and civic organizations. The four agencies thus have nationwide resettlement networks which include the assistance of thousands of Americans who volunteer their services in helping the refugees. (These volunteers also include an increasing number of previously resettled Cuban refugees who help newcomers.)

Each refugee who arrives in Miami selects the resettlement agency of his choice. The agency secures full information from the refugee and his family regarding the location and situation of relatives, and counsels the refugees on

living conditions, employment opportunities, and other aspects of adaptation to life in the United States. Prior to departure of the refugee from Miami, the resettlement agency contacts its representatives and relatives at the point of destination. Travel arrangements are made by the agency.

At the destination, arrangements are made for reception of the refugees and at least temporary housing. Following arrival, the agency helps the refugee to obtain permanent housing, to secure employment, to register children in schools, and to become oriented in general to the new community. The agency may also help in arranging for English or vocational training, day care for children, and other services as appropriate. The agency continues to be available to the refugee for counseling and help whenever problems may arise.

The current contracts with the voluntary agencies call for $85 per refugee resettled, which may be adjusted up or down by 25 percent, depending on actual identifiable costs incurred by the agency on behalf of the Cuban refugees.

SCHOOL ASSISTANCE TO DADE COUNTY, FLA.

Mr. PASSMAN. I notice in the justifications that new negotiations with the Dade County School Board are in process for the determination of a new payment per pupil for Cuban refugee children.

What do you pay now per pupil for Cuban refugees to the Dade County school system?

Mr. PALMATIER. In Dade County, we have for some time been dividing the children into two groups. Preairlift, which is before October 3, 1965, and those who have entered the country after that date.

Mr. PASSMAN. What is the average per Cuban child?

Mr. BAKER. It is zero in 1971 for the preairlift group. We are dropping, after fiscal 1970, any payment for the children that arrived before October 3, 1965.

Mr. PASSMAN. Let us take those arriving after 1965. What is it costing per child?

Mr. BAKER. We estimate the Federal share, excluding construction, will cost $400.

Mr. PASSMAN. Per child?

Mr. BAKER. Per child on the basis of the average daily membership.

Mr. PASSMAN. That is all Cuban refugee children who arrived after 1965.

Mr. BAKER. Who entered the United States after October 3, 1965.

Mr. PASSMAN. We are talking about a 5-year period.

Mr. BAKER. Yes, it will be 5 years this coming October since the new influx started.

Mr. PASSMAN. It would be 6 years as it applies to this fiscal year beginning July 1, is that right?

Mr. BAKER. That is correct.

Mr. PASSMAN. I believe you stated that 87 percent of the refugees, on the average, are presently engaged in the free enterprise system, are they not, working and paying taxes?

Mr. BAKER. That is correct.

Mr. PASSMAN. Isn't that a nice subsidy to Dade County?

Mr. BAKER. It is very helpful.

Mr. PASSMAN. It is more than helpful. It is a bonanza. Eighty-seven percent of those children's parents are working and contributing to the local economy. You people ought to look this program over very carefully. Do you plan to negotiate with other areas a similar arrangement as you propose to have with the two townships in New Jersey?

Mr. PALMATIER. We do not.

ENGLISH AND VOCATIONAL TRAINING

Mr. PASSMAN. Under the vocational and English training program do you have some sort of provision that would allow you to discontinue financial assistance to refugees who refuse to take advantage of this program?

Mr. PALMATIER. Yes, we do.

Mr. PASSMAN. Then how do they live? If they do not have anything, and if you offer them a job and they do not take it, how do they live?

Mr. PALMATIER. First, those we select for English and vocational language training are given a good physical examination and other screening. Then, if there is no reason why they should not take the training and become self-supporting, we close the case.

INDIVIDUALS WHO DO NOT WANT TO WORK

Mr. PASSMAN. You do have individuals, not only among the Cuban refugees but also Americans, who do not want to work who manage to get on welfare.

Mr. PALMATIER. Yes.

Mr. PASSMAN. What about the lazy Cuban that accidentally got here, what do you do with him? How does he survive, then?

Mr. PALMATIER. I would assume he goes into some kind of work in order to survive.

Mr. PASSMAN. I am talking about the ones who won't go to work and you have a lot of them, I assume.

Mr. PALMATIER. You mean on the domestic welfare program or ours?

Mr. PASSMAN. We have many millions of Americans who do not intend to work. You know that, don't you?

Mr. PALMATIER. Certainly, there are some.

Mr. PASSMAN. Do you know what was said on this subject in Biblical days?

Mr. PALMATIER. No.

Mr. PASSMAN. Then let me quote from the Holy Writings. In this day when the Federal Government is talking of providing a guaranteed income for everyone regardless of whether or not he works, we wonder what the Apostle Paul of Christ's time on earth would have said on that subject.

Gentlemen, to find out what Paul thought in the day in which he lived, we have only to read second Thessalonians, chapter 3, verses 10 and 11 in which he said, "For even when we were with you, this we commanded of you, that if any would not work, neither should he eat. For we hear that there are some which walk among you disorderly, working not at all, but are busybodies." Isn't that just about what we are confronted with today?

Mr. PALMATIER. Possibly.

Mr. PASSMAN. So there were lazy people even back in Christ's time. But you have a lot of modern day politicians who won't give any thought to it. I just imagine that these Cubans have a way of eating even if they do not work. I do not know anything you can do about it and there is nothing I can do about it.

CUBAN STUDENT LOAN PROGRAM

What types of loans are made to the Cuban refugee students who are entering college?

Mr. PALMATIER. The student loan program for Cuban refugees is patterned after the National Defense Education Act. They can borrow up to a thousand dollars a year which is repayable at 3-percent interest. If they enter the health professions they can borrow up to $2,500 a year, which is also repayable at the 3-percent rate.

Mr. PASSMAN. You are only administering the laws as they are passed on to you. I recognize that. Wouldn't it be a great thing for this country if we would take politics out of our business on Capitol Hill and have an interest rate on all loans to Americans or foreigners so that they would pay the same interest rate that the Government has to pay to borrow that money. When you have a concessionary interest rate—and we are paying 7½ percent for the money we borrow and they are only paying three—in all probability that loan becomes at least one-third subsidy by the time it is paid out. Isn't that right?

Mr. PALMATIER. Yes.

NUMBER OF REFUGEES RECEIVING STUDENT LOANS, DROPOUTS, AND REPAYMENT EXPERIENCE

Mr. PASSMAN. I do not guess you can ever put any business principles in Government. It is just not a part of the system. How many college students have you made loans to since the inception of the program?

Mr. PALMATIER. Slightly in excess of 10,000.

Mr. PASSMAN. Do you have any statistics on the number of dropouts?

Mr. BAKER. We would have to furnish that for the record.

Mr. PASSMAN. Will you do that?

Mr. BAKER. Yes, sir.

(The information follows:)

The Office of Education indicates neither it nor the colleges and universities accumulate information of the type requested. However, data which are available from the Office of Education show that the number of students who drop out would be very small: The number of annual borrowers during the years 1961 through fiscal year 1969 totaled 19,518 representing 5,618 different students who entered schools before July 1966; in other words, during this 10-year period, each student borrowed, on the average, for 3½ years. And since these statistics are not adjusted for those students who may not need a loan for every year they are in school, or who enter the country with some higher education and do not enter school as first-year students, the picture is even more favorable. Other statistics also support the low drop out rate estimated for Cuban students receiving loans: Loans to over 4,000 students are now in the repayment process; about 500 students have completed repayment of their indebtedness.

Mr. PASSMAN. What has been your experience to date as to repayment of these loans of those students who have finished college?

Mr. PALMATIER. I looked it up just before I left to come to the hearing and of the some 10,000 there are at present 137 students delinquent in repaying their loans.

Mr. PASSMAN. Do you have a vehicle known as updating or rollover of a loan? The Export-Import Bank has what is known as the rollover.

Mr. PALMATIER. I do not know what the term means.

Mr. PASSMAN. Nobody knows because it is such a sweet-sounding term but if a man gets behind in his loan repayments, to keep him from being delinquent you bring him up to date by updating or rolling-over his loan. We always called that refinancing in my business. You have 130 delinquent?

Mr. PALMATIER. 137. That is about 1 percent.

Mr. PASSMAN. That is a remarkable record.

Do they have any grace period on these loans?

Mr. PALMATIER. One year after they finish college.

Mr. PASSMAN. In other words, if it is a 4-year course and they get their bachelor's degree, the loan repayments start 1 year after graduation. That would be the average.

Mr. PALMATIER. Yes.

Mr. PASSMAN. Do you accrue the interest or do they start paying interest only after they start making payments?

Mr. BAKER. That is right. Interest accruals start when repayments start.

OUTPATIENT HOSPITAL SERVICES IN FLORIDA

Mr. PASSMAN. I notice in the justifications that there seems to be a very large increase in the outpatient hospital services per visit cost. In 1969 it was $14.62 per visit and in 1971 it is estimated at $17.30 per visit. Is that correct?

Mr. PALMATIER. That is correct.

Mr. PASSMAN. In 2 years it would appear that there is about a 20-percent increase in the cost per visit.

Mr. BAKER. I think you are right.

Mr. PASSMAN. Inflation is running possibly 5 percent per year. That would be 10 percent per year, would it not?

Mr. PALMATIER. Yes.

Mr. PASSMAN. The doctors are very pleased with the $14.62 per visit, I believe. They are getting to you. If inflation is running at a rate of 5 percent a year you could have given them a 10-percent increase, and it would have been in keeping with the loss in the purchasing power of the dollar.

Mr. PALMATIER. All medical costs are going up, and this item is also related to the type of medical service required.

Mr. PASSMAN. I know medical costs are going up. That is not what I said. They were satisfied with $14.62. You have increased the per visit cost 20 percent in 2 years whereas inflation has reduced the purchasing power of the dollar 10 percent, or 5 percent a year. Aren't those statistics correct?

Mr. PALMATIER. They are.

Mr. PASSMAN. They are gouging you, in my opinion.

(Discussion off the record.)

Mr. PASSMAN. That is all.

Mr. Shriver?

RATE OF GROWTH IN CUBAN REFUGEE PROGRAM FUNDS REQUIREMENTS

Mr. SHRIVER. You are requesting a 28-percent increase above last year's amount, and nearly three times the level of this program just 5

years ago. I know you are responsible only for taking care of these people after they get here, but would you agree this program has grown far out of proportion to that envisioned by Congress and President Kennedy when it was initiated?

Mr. PALMATIER. I think it probably has, Mr. Shriver, even though I was not with it at that time. I understand it was started because, after Castro came to power, a very large number of Cubans came to Miami, Fla., in a relatively short period of time. It was started originally to offset the impact of the burden they were placing on the Miami community. I think when the program started that a lot of people believed that Cuba would soon be liberated and that it would be a temporary program.

Mr. SHRIVER. In 1965 the program only required $34 million. In 1967, $51 million. Today, you are asking for $112 million.

Mr. PALMATIER. That is correct.

Mr. SHRIVER. So it is better than three times as great as it was a few years ago.

Mr. PALMATIER. That is correct.

Mr. SHRIVER. Would you expect the budget for this program to triple again in the next 5 years?

Mr. PALMATIER. I think so long as we have the continuing influx of refugees from Cuba, and as long as the characteristics of those coming in remain as they have in the past, that our costs will continue to go up.

EFFECT OF REDUCING BUDGET TO 1965 OR 1967 LEVEL

Mr. SHRIVER. What if this committee did not appropriate the amount you have requested and went back to the figure of 1965 or 1967?

Mr. PALMATIER. Unless the influx was stopped, if we did not get the money that we requested, we would not be able to reimburse the States for money that they had already spent in providing welfare and other services.

Mr. SHRIVER. That would not stop the refugees from coming in.

Mr. PALMATIER. I do not know what would happen in that regard. If they continued to come in and we were not appropriated the funds, if they required welfare services, someone would have to pick up the tab and I would assume it would be the individual State agencies.

We reimburse now for the services they provide.

Mr. MILLER. Mr. Shriver, I believe the answer to your question lies outside this program. It seems to me that we need to meet our commitments under this program. It is a question of what our commitments are.

If we should enunciate a change in our previous agreement, or there should be a change in the foreign policy of the United States, then it could reduce this program. But until the step is taken at that point it seems to me that we would be reneging on our commitments if we were not to meet the legitimate costs of this program.

Mr. SHRIVER. We have a number of education bills with commitments to the States and there was reliance by the school districts upon receiving under certain formulas certain amounts of money.

We have a bill before the House today that does not do that because the Appropriations Committee cut it back.

You say we have to change the policy. We are doing it here on the floor of the House today by appropriations and not by going back to the policy or the substantive legislation creating it.

Mr. MILLER. But the formula grants are the product of education policy and that can be changed within HEW's responsibilities.

I am only suggesting that HEW's responsibility for the Cuban refugee program is open-ended the way public assistance is and we need to meet our commitments.

The policy would have to be changed at another point in the pipeline; namely the foreign policy point.

Mr. SHRIVER. That is not the way we necessarily do things as it affects our own constituents back home. The school districts that I mentioned—impacted school districts for one category—and we have had that program about 10 or 15 years longer than we have had this one, they were relying on certain amounts of money coming to them. Yet we have cut it back so that certain students would receive no more than 55 percent of entitlement. And why? Because this is a year of inflation. This is a year when we are trying to stop ongoing inflation.

Mr. PALMATIER. We would have to review our entire policy that calls for the influx of refugees and services to them after they get here. Speaking personally, it seems to me it would be very difficult to continue to offer people political asylum and bring them to Miami and leave them there at the International Airport.

Mr. SHRIVER. Would they come on in no matter whether there were funds available to do everything you have been doing?

Mr. PALMATIER. Unless that policy was changed—that is, the one that brings them in.

Mr. SHRIVER. I understand that. I do not know why we could not cut it back the same way we are cutting back on funds to our local school districts.

Mr. MILLER. They would arrive here with the understanding that we would not take care of them.

They would know the terms of their emigration from Cuba. They would know that they would not find the same commitment that they now are told exists.

I think that is the distinction.

ASSISTANCE TO RESETTLED REFUGEES BY VOLUNTARY AGENCIES

Mr. SHRIVER. On page 6 of the justifications you point out that unlike the first influx of refugees who were retained in Miami until they could speak English and had job training for immediate employment upon resettlement, almost 75 percent of the refugees now entering the country are resettled immediately to States other than Florida.

This increases the assistance cost for these people in their places of resettlement. Couldn't these costs be reduced through more active stimulation of the private assistance agencies in the local areas to train and educate these people and get them into productive capacities wherever they might be?

Mr. PALMATIER. There are four voluntary agencies that work with us on the program. And, as you know, three of them are religious groups and one is nonsectarian. I seriously question if they can do much more than they are doing now, and have since the inception of the program, by way of finding job opportunities, getting some train-

ing for people when needed, and so on. We have our own vocational training and English language training in Miami as well. We are going to develop something on the functions of the voluntary agencies for the record as has been asked by the chairman. I do have a chance to get out and look at the Cubans who are on assistance and those who are not on assistance, and I am not sure that there is much more that anyone can do to reduce this assistance caseload much below what it is.

CHARACTERISTICS OF REFUGEES RECEIVING WELFARE IN MIAMI

I mentioned the statistics in Miami. Once again, I have to talk about age: but 80 percent of those on assistance in Miami are over 60 years of age. We are constantly going over that caseload to make sure we get those in training who might benefit from it. If the voluntary agencies come up with a valid resettlement opportunity, where there is a job and housing available, and the man does not take it, we knock him off the caseload. We find that the characteristics of the Cubans who are on assistance outside of Miami are similar to the characteristics of those who are on assistance in Miami, Fla.

Mr. SHRIVER. When they are knocked off as you mentioned, what happens to them?

Mr. PALMATIER. When I say we cut them off, we try to be as realistic as we can, and so do the voluntary agencies. If they find a man who is 75 years old and he is sick or otherwise incapable of self-support, they are not going to go offer him a resettlement opportunity merely so we can close the case because he does not accept it.

The ones we close are capable of self-support. If they do not want to cooperate with our program, and take advantage of what we have to offer to make them self-supporting, to help them build a meaningful life for themselves, we do not feel we have an obligation to them.

I will be as frank as that. We would not have offered them the opportunity if we did not feel we could do something for them and they could do something to help themselves.

INCREASE FOR STUDENT LOANS

Mr. SHRIVER. You are requesting an increase of a little over a million dollars for college student loans to refugees. All of us agree that this is a good program, but how can we justify this proposed increase to our own college students who have written to protest the administration's proposal to cut back the direct loan program for American college students? How can we justify this to our own college students when we are increasing this kind of a program for people coming in from another country?

Mr. PALMATIER. It is very difficult to justify an increase in this if sufficient money is not available for American college students who need help to go to college. Talking to the Cuban side of it, we have had good experience with the loans and in repayment of the money.

Mr. SHRIVER. We do with the American students, too. This is another issue that is in this bill that we have before us today where there has been a cutback of availability of Government loans.

EXPLANATION OF "HEALTH SERVICES" IN FLORIDA

On page 9 of the justifications, you have hospitalization and medical assistance programs listed for (1) Florida; (2) other States; and (3) health services under No. 4.

Mr. PALMATIER. Yes.

Mr. SHRIVER. How does this last item differ from the first two?

Mr. PALMATIER. To take them in order, the people who are on welfare assistance in Miami, Fla., are authorized hospitalization, if needed.

The charges for that hospitalization are paid for by the Florida State Department of Public Welfare and then they are reimbursed by the Federal Government; so we include that item under welfare assistance.

States other than Florida have a situation that is similar. The welfare agencies of the State, working together with the medical authorities, provide for both the welfare services, which might be a cash payment directly to the needy Cuban for daily maintenance, and for payment for medical services which might be made directly to the supplier. The two are lumped together in the budget.

With respect to item 4, "Health services," we have maintained since the inception of the Cuban refugee program a refugee health clinic in Miami. Actually, the refugee health clinic is staffed by doctors from the Dade County Board of Public Health who worked out an agreement with them. They provide a variety of services.

They do a health screening on all of the Cuban refugees at the time of their arrival.

In addition, on referral to them from the welfare unit, they evaluate a person's health situation with respect to his ability to attend vocational or language training or to resettle to obtain employment.

In addition to that, the clinic provides outpatient services to those Cuban refugees who are on financial assistance.

There are also outpatient hospital services authorized by the clinic which it cannot provide because of its limitations. We have also, since the inception of the program, transferred funds to Dade County Board of Health to pay for part of the maternal and child health services they provide; this "Health" item includes these funds. The item under "Health" on hospitalization for long-term illness relates to the way the State of Florida and Dade County operate their tubercular and mental institutions. If we have a patient who is tubercular or is mentally ill, the bills on his behalf are paid for directly by the Dade County Public Health Service rather than by the welfare people.

SCREENING OF REFUGEES BY IMMIGRATION AND NATURALIZATION SERVICE

Mr. SHRIVER. On page 10 you mention the relationship between your program and the Department of Justice. Would you explain that?

Mr. PALMATIER. As you know, Mr. Shriver, we in HEW do not actually have any responsibility for the refugees until they physically enter the United States and are officially granted entry by other elements of the Government.

The Department of Justice is involved in the initial screening—security screening—of the lists that come from Cuba for processing. They are involved in the inspection of the refugees at the point of

arrival. The Immigration Service also has inspectors who ride down on the airplanes to Cuba every day to make sure that persons do not get on the airlift who have not been approved by the U.S. This is the type of service that they provide.

Mr. SHRIVER. In connection with that, part of the reason for the increased cost is the higher proportion of the elderly people now coming from Cuba.

On page 12, the table shows nearly 80 percent of the Miami caseload consists of persons over the age 61.

Mr. PALMATIER. Yes.

PERSONS STILL IN CUBA THAT MAY BE COMING TO U.S.

Mr. SHRIVER. Of the approximately 200,000 people still awaiting permission to come into the United States, how many of these will be over the 60 age bracket.

Mr. PALMATIER. I should say, regarding the number awaiting permission to come to the U.S., that the estimate of those remaining from the original registration which Castro permitted between October 1965 and May 1966, is about 72,000. But at the same time no one knows whether Castro might reopen registration if he should decide to, or how many he might permit to leave Cuba of the approximately 90,000 relatives in Cuba who have been claimed by U.S. citizens—that is, by Cubans here who have become U.S. citizens. So the potential numbers over an extended period of time would be pretty uncertain.

With regard to characteristics—unless the characteristics of those coming in do change—and we have no indication that they are going to change—at least 11 percent probably will be over 60 years of age.

Mr. SHRIVER. And you have to take them all?

Mr. PALMATIER. The way the memorandum of understanding was worked out between the two governments, we would have to take them, yes.

There were no provisions made within the fundamental agreement with respect to limitations for age or health or other reasons of that type.

AVERAGE MONTHLY WELFARE PAYMENT

Mr. SHRIVER. On page 17 you show the average cost per person per month of the Cuban refugee financial assistance program in Florida in 1969 was $40. You say that cost-of-living increases will cause this to increase to $42 in 1970, but that your budget request for fiscal 1971 is based on an assumption of no further increase in this figure. Is this realistic in view of continuing increases in the cost-of-living index?

Mr. PALMATIER. In Florida, the maximum amount of cash assistance per month that may be authorized for needy Cubans is $60 for a single adult case and $100 for a family case. Some persons receiving assistance have no other income and qualify for the maximum amount of assistance. Other persons receiving assistance have a limited amount of other income which is insufficient to meet their minimum needs; therefore these persons qualify for assistance but not for the maximum amount which they would receive if they had no other income. The average of $42 per person represents an averaging of all

persons receiving assistance—both those receiving the maximum amounts and those only qualifying for lesser amounts. In view of the generally favorable economic and employment situation in Miami, we estimate that many of the persons receiving assistance in 1971 will require only partial assistance, and that the average amount per person will remain at $42.

COST PER PERSON OF SURPLUS FOOD

Mr. SHRIVER. On page 19 you say in fiscal 1969, 72 percent of the refugees receiving financial assistance in Miami received surplus food and the cost to the program averaged 37 cents a month per person. This seems extremely low. What kind of food assistance can you give a person for 37 cents a month?

Mr. PALMATIER. The cost of 37 cents to the program covers only the cost of storing and distributing the surplus commodities. The cost of the commodities themselves is covered by the Department of Agriculture for this program, similar to the regular U.S. commodity distribution programs. The fair market value of surplus commodities utilized by needy Cuban refugees in Miami in 1969 is estimated at $1,250,000; this amounts to about $5.75 per month per person receiving surplus food.

ELIGIBILITY OF CUBAN REFUGEES FOR OTHER PROGRAMS

Mr. SHRIVER. Are these Cuban refugees eligible for our wide range of manpower and poverty programs? To what extent have they participated in these programs?

Mr. PALMATIER. Cuban refugees are not eligible for the Work Incentive (WIN) program which is available only to persons receiving public assistance under the regular program of aid to families with dependent children (AFDC). The Department of Labor advises that if refugees have permanent resident status, they are eligible for the Job Corps and Job Opportunities in the Business Sector (JOBS), and that they are eligible for the following programs without regard to immigration status: Manpower Development and Training (MDTA), concentrated employment program (CEP), Operation Mainstream, Neighborhood Youth Corps, and New careers. Refugees are not eligible for VISTA, for which citizenship is required, but are eligible for Headstart and Follow Through. Refugees are eligible for State vocational training programs carried out under the Vocation Education Act. A disabled refugee is eligible for vocational rehabilitation under the Vocational Rehabilitation Act.

None of these programs maintain separate statistics for Cuban refugees on a national basis. We do know from fragmentary reports, however, that refugees are participating in these programs in various areas. For example, in one city over 1,000 refugees have been placed in employment during a 4-year period through the efforts of a comprehensive vocational center; in another area refugees are being referred to MDTA apprenticeship and on-the-job training projects; refugees have been enrolled in Operation Mainstream in one county; in another county 2,000 refugees have been enrolled in vocational training.

It is of course our policy to encourage the inclusion of refugees in existing programs to the fullest extent possible.

INCREASED COSTS OF RESETTLEMENT AGENCIES

Mr. SHRIVER. On page 24 you say the costs to the voluntary agencies for their resettlement activities have been rising at a rate of 5 to 10 percent per year. What are the reasons for these increases?

Mr. PALMATIER. Most of the expenses for which the voluntary agencies are reimbursed are for staff counseling, for emergency help to refugees being resettled, and other directly identifiable costs and the agencies are experiencing some increases in these costs in line with the general trend in price increase.

REEXAMINING BASIS FOR ASSISTING DADE COUNTY SCHOOLS

Mr. SHRIVER. Would you explain further the issues being discussed in the negotiations with the Dade County School Board concerning a reexamination of the assistance formula used in fiscal 1969?

Mr. PALMATIER. The 1969 formula was intended to bring about a leveling off in annual increases in this segment of the program. Our experience with last year's formula indicates, however, that costs were continuing to rise; it was not possible, within the 1970 appropriation to follow the 1969 formula. Our concern is to be sure that we have a formula which, as reasonably as one can determine, provides an adequate but not excessive level of assistance, related to the impact of refugee schoolchildren on the public schools in Dade County. Together with school officials and the Office of Education, we have been looking at some of the factors involved, such as the fact that the vast majority of the refugees in Miami are self-supporting and paying taxes on the same basis as other residents, while at the same time recognizing that the continuing introduction of newly arrived, non-English-speaking children does have an impact on the schools. We believe that our discussions will lead to some revisions which can strike a better balance between these factors than the previous formula, resulting in a lower requirement for Federal funds than the previous formula would have done.

REQUEST FOR FUNDS TO ASSIST TWO NEW JERSEY SCHOOL SYSTEMS

Mr. SHRIVER. On page 29 you discuss the request for $3 million for the first time for assistance to the school systems in Union City and West New York, N.J. You say the assistance is based on the arbitrary rationale of 10 percent or more resettlements in relation to total population in these towns. You go on to say that Cuban refugee children comprise 36 percent of total school enrollments for these two towns. It would seem that this latter statistic would form a stronger basis on which to assist these school districts rather than using percentage of total population, would it not?

Do any other factors enter into the decision to grant assistance to these school districts, such as whether or not the parents of these children are employed, and to what extent they contribute to the local economy?

Is this $3 million to be earmarked for any specific purposes such as construction, or is it to be general budget support?

Based on the 10 percent of total population formula, are any other cities approaching the criterion needed for this assistance?

Mr. PALMATIER. Based on the 10 percent formula, no other cities appear to be approaching the criterion needed for this assistance.

We selected a "percent of resettlement" formula for determining eligibility of a school system for assistance because such a formula relates possible impact directly to Federal actions in resettling refugees, rather than to refugees who may settle in a community on their own initiative. However, in determining the extent of possible impact, Mr. Shriver, we would be taking into account the 36 percent figure as you suggest.

While specific negotiations have, of course, not been concluded with these two school systems, we would anticipate that assistance would be based on general budget support and would take into account, so far as possible, the welfare and self-support status of the refugees.

ALTERNATIVE TO DIRECT STUDENT LOAN PROGRAM

Mr. SHRIVER. Have you considered using the guaranteed interest type of college student loan assistance rather than continuing the direct loan program?

Mr. PALMATIER. Yes, we have. However, we have found that Cuban refugees, because of their short period of time in this country and the fact that they are not citizens, makes it difficult generally for them to obtain such loans through financial institutions. They are sort of at the bottom of the totem pole in this regard, which is very difficult in a period of tight money. Therefore we have felt the need to continue a direct loan program for those most in need. At the same time, colleges and universities have been instructed to counsel refugees to seek other avenues of financing wherever possible, and some refugees are known to be getting loans under the guaranteed loan program. For example, the University of Puerto Rico has reported an increasing number of Cuban refugee students coming under the guaranteed program. We sincerely hope this is the trend for the future.

INCREASE FOR MATERNAL AND CHILD HEALTH

Mr. SHRIVER. On page 32 you request $120,000 for maternal and child health and school health services, an increase of nearly 50 percent in only 2 years. You say the increase is due primarily to pay raises. This seems like a rather high rate of increase. Would you comment on this?

Mr. PALMATIER. In addition to increased pay costs, provision was made for adding three more positions during fiscal year 1970 because of the increased number of children in Dade County to whom these services are given. Fiscal year 1971 reflects the full-year cost of the additional positions expected to be added for only part of 1970.

COST OF SURPLUS COMMODITIES

Mr. SHRIVER. What is your estimate of the cost to the Department of Agriculture for the surplus commodities used in your program? This is in addition to the budget you are presenting here today, is it not?

Mr. PALMATIER. Yes; our budget includes only those funds expended by the Florida Welfare Department for storing and distributing the

surplus commodities given needy Cuban refugees. The fair market value of surplus food distributed in fiscal year 1969 is estimated at $1,250,000 which would have been part of the Department of Agriculture's budget.

NEWSPAPER REPORT ON CUBAN REFUGEES IN NEW ORLEANS

Mr. PASSMAN. Mr. Shriver, could you just take a moment before we go to the floor? I hold in my hand a photostatic copy of a press release from the Shreveport, La., Journal, February 3, 1970, entitled "Cuban Exiles Make a New Life." These are only a couple of excerpts:

> The general character of the exiles is well demonstrated by the Cuban colony in New Orleans. Of the estimated 10,000 to 15,000 refugees in the Crescent City, fewer than 400 adults and approximately 160 children are welfare recipients according to New Orleans State item writer Gene Bourg. The Cuban labor force, consisting of 5,000 persons, is reported to earn an average salary of $600 per worker per month. The director of the Catholic Cuban Center told the reporter that the demand for Cuban workers often is greater than the available supply.

Is that correct?

Mr. PALMATIER. Yes, sir.

Mr. PASSMAN. Then why don't you get more of the refugees to move to New Orleans and let this be the pattern? If they are getting $600 per month, it does not make any sense to settle them in Miami. When they arrive they all ought to be taken immediately to New Orleans. Do you agree?

Mr. PALMATIER. The Cubans have done well in New Orleans.

Mr. PASSMAN. Let us see if we can't take them all to New Orleans where they are begging for them according to this article. Do you agree with the accuracy of it?

Mr. PALMATIER. I agree that the Cubans are doing exceptionally well in New Orleans.

Mr. PASSMAN. Mrs. Reid?

POSSIBILITY OF OTHER COMMUNITIES REQUESTING SCHOOL ASSISTANCE

Mr. REID. It has been stated that fiscal year 1971 marks the first year funds have been requested for school systems other than Dade County, Fla., due to the impact of Cuban refugee children.

Do you foresee that communities other than Union City and West New York, N.J., will be getting in on this program and be requesting funds?

Mr. PALMATIER. No; not in the next few years. We are assuming that the airlift will continue at its present rate, and that the pattern of resettlements—since it is a family reunion resettlement program—will remain substantially the same as in the last few years. The situation in Union City and West New York involves a large number of refugees moving into two relatively small towns, each of which has an independent school system. At present, we know of no other community in which resettlements are approaching the 10 percent of the population which has been used as the criterion for eligibility of these school systems for aid under our program.

TEACHING ENGLISH TO RESETTLED CUBANS

Mrs. REID. Is there any organized program for teaching English to those refugees who are resettled almost immediately upon arriving in Miami?

Mr. PALMATIER. Not sponsored directly by the Cuban refugee program. However, the voluntary agencies, through their local affiliates, do help set up English classes wherever possible or to get refugees enrolled in existing classes. Areas accustomed to immigrant arrivals tend to already have English classes for the foreign born, in which refugees can enroll. However, since most of the new arrivals find immediate employment—and a man may even take two jobs in order to provide for his family—many of the refugees don't have much time or energy for studying English, so that their progress may be rather slow. I do think that most of the refugees who want English classes can find the opportunity, and we certainly encourage them to do so.

STUDENT LOANS AND REPAYMENTS

Mrs. REID. Do Cuban refugee students find it as difficult to obtain a college assistance loan as Americans—or is there a separate program for the Cuban students? Also, do they repay the loans?

Mr. PALMATIER. A separate program of student loans for needy Cuban refugee college students was initiated early in the Cuban refugee program in recognition of two factors: The vast majority of refugees had been admitted to the United States with the immigration status of parolees and were not eligible under the domestic loan program; and, second, if loans were to be made to refugees from the domestic program, this would have had the effect of reducing the amount of loan funds available to U.S. students. Therefore a special Cuban student loan program was inaugurated, administered by the U.S. Office of Education and utilizing Federal funds appropriated for the Cuban refugee program. The program is administered under the same rules and regulations as the national defense student loan program, except that the refugee loan program is financed entirely from Federal funds, while under the domestic program institutions must provide one-ninth of the funds. As under the domestic program, eligibility for a Cuban student loan is determined by the college or university, and on the basis of the same standards of need as apply to U.S. students. The Office of Education has advised us that the repayment record of the refugees has been excellent.

ACTIVITIES OF RETRAINED CUBAN PROFESSIONALS

Mrs. REID. After money is spent on refresher courses for teachers, doctors and dentists—do these professionals contribute their talents to help their fellow refugees—or do they tend to go elsewhere?

Mr. PALMATIER. The majority of the professionals work outside Miami, reflecting both the emphasis of the program on resettlement and the fact that shortages of professionals exist throughout many parts of the country. For example, records of the Cuban Medical As-

sociation in Exile show that 1,776 Cuban physicians were licensed to practice in the United States as of last July. Of these, 335 were licensed in Florida and 1,441 in other States. Other Cuban physicians, who had not yet taken and passed State boards, were working throughout the United States as interns and residents in hospitals. The same geographic pattern applies to teachers. Several hundred have been fully certified by the State of Florida, but the majority are working in other areas. I should add that many of the professionals who have been resettled, as well as those in Miami, are being helpful to their fellow refugees, both in their professional endeavors and in their participation in refugee civic and community organizations.

SAFEGUARDS AGAINST SPREAD OF COMMUNICABLE DISEASES

Mrs. REID. In regular, routine immigration cases, those applying for a visa who are found to have TB or mental illness are not permitted to enter the United States, but if a refugee arrives and is found to have such disease we still could not keep him out. What steps are taken to treat such persons and prevent any communicable diseases from spreading?

Mr. PALMATIER. All of the refugees are examined for TB and other diseases at the time of their arrival. The medical screening is performed by staff of the Dade County Health Department, operating with the support of the Cuban refugee program through agreement with the U.S. Public Health Service. Medical treatment and hospitalization are provided as required, with institutions reimbursed from Federal funds. Standard public health procedures are followed in the case of any persons with communicable diseases. As of the end of December 1969, there were 16 refugees receiving in-patient hospital treatment for tuberculosis, and 79 for mental illness.

RESETTLED, SELF-SUPPORTING REFUGEES

Mrs. REID. What percentage of the total number of refugees brought in are now resettled, employed, and contributing to the economy?

Mr. PALMATIER. As of December 31, 1969, 356,784 Cuban refugees had registered with the program, and, of this number 236,199 had been resettled to communities outside of Miami, Fla. Based on the 59,680 refugees receiving welfare assistance in December, a total of 297,104, or 83 percent, of those refugees registered with the program were in families completely self-supporting, with one or more adult members of the family working and paying taxes.

LOCATION OF CUBAN REFUGEES

Mrs. REID. Could you supply for the record a list of the areas outside of Miami where these refugees have gone—and the approximate numbers in each area.

Mr. PALMATIER. We will supply that for the record.

(The information follows:)

Cuban Refugees Resettled Out of Miami, Florida—January 1961–December 31, 1969 [1]

States	*Number of refugees*
Alabama	380
Alaska	1
Arizona	209
Arkansas	80
California	29,588
Colorado	1,305
Connecticut	3,017
Delaware	323
District of Columbia	2,109
Florida	8,841
Georgia	1,898
Hawaii	30
Idaho	8
Illinois	17,600
Indiana	1,267
Iowa	543
Kansas	951
Kentucky	333
Louisiana	5,998
Maine	29
Maryland	1,461
Massachusetts	6,771
Michigan	2,250
Minnesota	494
Mississippi	108
Missouri	1,183
Montana	152
Nebraska	456
Nevada	1,316
New Hampshire	138
New Jersey	42,722
New Mexico	430
New York	66,394
North Carolina	771
North Dakota	45
Ohio	2,175
Oklahoma	518
Oregon	941
Pennsylvania	3,379
Rhode Island	441
South Carolina	252
South Dakota	55
Tennessee	545
Texas	4,653
Utah	15
Vermont	94
Virginia	1,859
Washington	402
West Virginia	164
Wisconsin	654
Wyoming	18
Puerto Rico	20,833
Total	236,199

[1] Based on original destination of refugee at time of resettlement by the Cuban refugee program.

RESETTLEMENT TO OTHER COUNTRIES

Mrs. Reid. Has anyone in Government given any consideration to resettling Cuban refugees in other countries—Australia, for instance?

Mr. Palmatier. Our authorization and appropriation apply to as-

sistance to refugees in the United States and resettlement within the United States, so that if a refugee wished to resettle in another country, he would have to finance that himself or find some other source of funds. We do understand that several thousand refugees have gone directly from Cuba to other countries—principally Latin American countries and Spain—rather than to the United States.

But in all candor, Mrs. Reid, my experience is that although Cubans share a common language with Spain and other Latin American countries, they feel the closest emotional ties to the United States, and this is where almost all of the refugees wish to come.

PROGRAM PHASE-OUT

Mrs. Reid. Would you be able to give us an idea as to when this program will be phased out—when eventually these people become wage-earners and taxpayers and part of the community and, therefore, no longer refugees?

Mr. Palmatier. Our authorizing legislation, the Migration and Refugee Assistance Act of 1962, applies only to "aliens." Therefore, our responsibility for a refugee terminates when—and if—he becomes a U.S. citizen. In actual practice, of course, the vast majority of the refugees become self-supporting soon after their arrival in the United States. However, under our present policies a registered refugee is potentially eligible for assistance and services though the Cuban refugee program, if the need arises, at any time during his stay in this country, if he has not become a U.S. citizen. It is not possible to predict when the program as a whole might be phased down or out; as long as the airlift continues, under present national policy, we expect the needs of the program to continue to increase.

RESETTLING PROFESSIONALS TO AREAS OF GREATEST NEED

Mrs. Reid. Has it been possible to resettle the Cuban refugees who have particular skills—such as doctors, dentists, and nurses—in areas where there is the greatest need for such professionals?

Mr. Palmatier. It has been possible to resettle many refugee professionals to places where they are very greatly needed, but it would be difficult for us to determine whether these places have the greatest need as compared to others. Throughout the program, the demand for refugee professionals, particularly physicians, has far exceeded the available supply.

REFUGEE HEALTH CLINIC STAFF

Mrs. Reid. Because of the shortage of doctors and other health personnel, has there been any difficulty in keeping a staff at the Refugee Health Clinic in Miami?

Mr. Palmatier. Fortunately, we have experienced very little difficulty thus far in meeting our staffing needs at the clinic. This, of course, is due in large part to the use of Cuban refugee personnel. Turnover does occur when a physician qualifies for a license to engage in private practice but so far we have been able to replace physicians who have left the clinic.

CUBANS HELP TO EACH OTHER

Mrs. REID. It has been stated that the more recent refugees are older, have more physical problems, and generally lack employment skills and English language ability, therefore, requiring more services. Do these refugees receive any help from those who came earlier and are now resettled?

Mr. PALMATIER. Yes; the refugees arriving on the airlift are all joining other family members who are already in the United States, so that practically all receive help from their relatives. This varies, of course, with the economic conditions of the relatives. In addition, refugeee community organizations have been established in many communities and in many instances are proving very effective in welcoming newly arriving refugees, helping them to find housing, locate jobs, get oriented, and become part of the community.

Mr. PASSMAN. Thank you, Mrs. Reid. Mr. Director, that concludes the hearing on your program for fiscal 1971. Thank you very much, gentlemen.

THURSDAY, FEBRUARY 19, 1970.

EXPORT-IMPORT BANK OF THE UNITED STATES

WITNESSES

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NANCY S. PIGMAN, OFFICE OF THE GENERAL COUNSEL

LIMITATION ON PROGRAM ACTIVITY

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Program by activities:			
1. Equipment and service loans:			
(a) Authorizations	985,093	2,420,000	3,000,000
(b) Participations and cancellations	−32,464	−195,000	−225,000
Net authorizations	952,629	2,225,000	2,775,000
2. All other, excluding administrative expenses:			
Authorizations [1]	392,876	1,207,413	1,325,483
Participations, cancellations and expirations		−5,000	−25,000
Net authorizations	392,876	1,202,413	1,300,483
Total authorizations other than for administrative expenses	1,345,505	3,427,413	4,075,483
Financing: Uncommitted balance lapsing	1,196,239		
Limitation	2,541,744	3,427,413	4,075,483

[1] Discount loans charged net in 1969 and gross in 1970 and 1971.

LIMITATION ON ADMINISTRATIVE EXPENSES

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Program by activities:			
1. Administration:			
(a) Loan program	3,009	4,192	4,748
(b) Guarantee and insurance program	1,593	1,795	1,865
(c) Garage management	21	18	18
Total obligations	4,623	6,005	6,631
Financing:			
Obligations not subject to limitation	−21	−18	−18
Unobligated balance lapsing	330		
Limitation	4,932	5,548	6,613
Proposed supplemental for civilian Pay Act increases		439	

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Personnel compensation:			
Permanent positions	3,513	4,541	4,953
Positions other than permanent	12	21	29
Other personnel compensation: Overtime and holiday pay	24	31	27
Special personal service payments:			
Reimbursable detail	15	44	73
Excess of annual leave earned over leave taken	39	46	50
Total personnel compensation	3,603	4,683	5,132
Personnel benefits: Civilian employees	259	338	400
Travel and transportation of persons	45	202	207
Transportation of things	3	4	5
Rent, communications, and utilities	541	558	592
Printing and reproduction	25	45	52
Other services	109	125	189
Supplies and materials	38	50	54
Accrued administrative expenses included in schedule for fund as a whole—seeseparate schedule	−4,623	−6,005	−6,631
Total accrued administrative expenses—costs			

PERSONNEL SUMMARY

Total number of permanent positions	318	364	398
Full-time equivalent of other positions	2	2	2
Average number of all employees	307	345	365
Average GS grade	8.9	9.2	9.2
Average GS salary	$11,491	$12,824	$12,932
Average salary of ungraded positions	$6,555	$6,733	$6,733

PUBLIC ENTERPRISE FUNDS

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Program by activities:			
Loan program:			
Operating costs, funded:			
Interest on borrowings	10,519	75,100	132,831
Discount on short-term notes	32,380	4,325	
Interest on participation certificates and debentures	123,853	113,184	92,424
Interest on advances under letters of credit	1,131	1,300	1,350
Administrative expenses subject to limitation	3,009	4,192	4,748
Other financial expense	4,668	8,302	14,154
Adjustment of prior year administrative expense	13		
Other expenses	79	220	207
Total operating costs, funded	175,752	206,623	245,714
Change in selected resources [1]	−3,535	−5,566	−1,085
Total obligations (operations program)	172,117	201,057	244,629
Capital outlay, funded:			
Equipment and services loans	1,381,400	1,238,200	1,167,848
Exporter loans	6,048		
Commodity loans	50,098	85,000	85,000
Discount loans	186,752	411,979	600,000
Special foreign trade loans	41,050	50,000	50,000
Repurchase of loans		350,700	
Total capital outlay, funded	1,665,348	2,135,879	1,902,848
Change in selected resources [1]	−193,830	530,709	1,261,350
Adjustments in selected resources (loan obligations)	637,704	554,033	322,150
Total obligations (capital outlay)	2,109,222	3,220,621	3,486,348
Total obligations (loan program)	2,281,339	3,421,678	3,730,977
Other: Purchase of equipment—Capital outlay	75	70	100
Guarantee and insurance program:			
Operating costs, funded:			
Administrative expenses subject to limitation	1,593	1,795	1,865
Nonadministrative expenses	1	1	1
Total operating costs, funded	1,594	1,796	1,866
Change in selected resources:			
Guarantees	28,149	380,213	550,150
Short-term insurance		275,000	100,000
Medium-term insurance	50,679	250,740	287,586
Subtotal	78,828	905,953	937,736
Reduction for fractional reserve basis	−71,992	−681,124	−703,302
Total change in selected resources	6,836	224,829	234,434
Total obligations (guarantee and insurance program)	8,430	226,625	236,300
Total obligations	2,289,844	3,648,373	3,967,377

[1] Balances of selected resources are identified on the statement of financial condition.

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Financing:			
Receipts and reimbursements:			
From: Non-Federal sources	—21	—18	—18
Loan program:			
Loans repaid	—924,354	—1,034,123	—1,091,682
Sale of loans with recourse	—366,174	—384,000	—500,000
Sale of loans without recourse	—11,976	----------	----------
Interest revenue from loans	—278,257	—327,550	—362,491
Interest revenue from U.S. Treasury securities	—170	----------	----------
Guarantee and insurance program: Fees and premiums, net	—2,868	—3,813	—6,000
Recovery of prior year obligations, loan program	—637,704	—554,033	—322,150
Unobligated balance available, start of year: Authority to spend public debt receipts	—2,687,129	—2,470,375	—369,951
Unobligated balance available, start of year: Authority to spend agency debt receipts	----------	—98,434	—804,022
Unobligated balance available, end of year: Authority to spend public debt receipts	2,470,375	369,951	----------
Unobligated balance available, end of year: Authority to spend agency debt receipts	98,434	804,022	----------
Capital transfer to general fund	50,000	50,000	50,000
Budget authority (permanent, indefinite, authority to spend agency debt receipts)	----------	----------	561,063
Relation of obligations to outlays:			
Obligations incurred, net	68,319	1,344,836	1,685,036
Obligated balance, start of year:			
Authority to spend public debt receipts	2,951,292	2,809,437	3,553,834
Fund balance	44,648	8,519	8,519
Obligated balance, end of year:			
Authority to spend public debt receipts	—2,809,437	—3,553,834	—3,324,659
Authority to spend agency debt receipts	----------	----------	—1,719,211
Fund balance	—8,519	—8,519	—8,519
Outlays	246,303	600,439	195,000

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Other services	59	203	190
Equipment	75	70	100
Investments and loans	2,109,222	3,220,621	3,486,348
Interest on portfolio certificates, etc.	172,551	202,211	240,759
Administrative expenses—see separate schedule	4,623	6,005	6,631
Adjustment of prior year expense	13	----------	----------
Total costs, funded	2,286,543	3,429,110	3,734,028
Change in selected resources	3,301	219,263	233,349
Total obligations	2,289,844	3,648,373	3,967,377

Mr. PASSMAN. The committee will come to order. We shall hear this afternoon witnesses from the Export-Import Bank of the United States with respect to their request for a limitation on their fiscal 1971 spending program, as well as a limitation on their administrative expenses.

We have as witnesses the President and Chairman of the Board of Directors, Hon. Henry Kearns, the First Vice President and Vice Chairman of the Board of Directors, Walter C. Sauer, R. Alex McCullough, Director, Don P. Bostwick, Executive Vice President, J. Patrick Dugan, Treasurer-Controller, Henry A. Mitchell, Jr., Deputy General Counsel.

Also, James K. Hess, Office of the Treasurer-Controller, and Nancy S. Pigman, Office of the General Counsel.

I assume, Mr. President, you have a general statement to make to the committee?

Mr. KEARNS. I will, Mr. Chairman, with your permission.

General Statement

Mr. Chairman, members of the committee, it is a pleasure for me to appear before you to discuss the activities of the Export-Import Bank. Today, we would like to review our progress over the past year, to outline our plans for the future and to present the fiscal year 1971 budget. It has been nearly a year since I became Chairman of Eximbank and since I appeared before you, fresh on the job as it were, to present the budget for the current year that was originally prepared by my predecessors. This has been a most challenging, interesting and, I believe, productive year for all of us at the Bank, and I would like to share with you the reasons behind this statement.

U.S. BALANCE-OF-TRADE POSITION

As this committee knows so well, the overall U.S. balance of payments has been in deficit practically every year for the last two decades. Recent announcement of a $6.9 billion deficit in 1969 is no comfort. However, one key segment of that payments account, the U.S. balance of trade, had shown a healthy surplus for many years, reaching as high as $7 billion at one point. This trade surplus was the major factor in keeping our overall payments position at least within management.

However, beginning with 1968, the U.S. trade surplus deteriorated severely to the point where we are verging on a deficit in this account also. While the statistics show a modest trade surplus in 1969, we would, in fact, have faced a trade deficit last year if AID-supported exports and concessionary agricultural commodity sales were not included in the trade account.

The possible deficit in the trade account results from the fact that while the annual value of U.S. exports has increased at slightly more than the corresponding rate of our national product, imports have been increasing at an even more rapid rate. Moreover, since 1963 our country's share of the world exports has dropped from 17.2 to 16.3 percent as the favorable position which American exporters enjoyed for so long has been increasingly challenged by the changing conditions in world trade. Today, in fact, less than 4 percent of the gross national product of this country is involved in exports even though we are still the largest trading nation in the world.

We believe that one of the principal factors in the decline in predominance of American exports in world trade has resulted primarily from these developments:

For the past 50 years American exporters had been able to obtain export financing in the private market at comparatively low rates. Now credit is tighter, rates are higher, and the limited resources are therefore going into the domestic market.

Other countries more dependent upon export sales are offering sharp competition in the international market. Nearly every other industrialized country subsidizes exporters by using different methods of financing for export credit than for internal financing.

The "mix" of U.S. exports has shifted from consumer goods to capital equipment which requires massive, long-term financing beyond the capacity of private financial institutions.

World trade is becoming increasingly dependent on credit, and foreign companies are receiving ever increasing assistance in this connection from their governments.

Thus, as can readily be seen, export financing has become a key element in international trade for all countries. And Eximbank, today, is the major U.S. Government instrument in a position to help our commercial exporters in the increasingly competitive world markets.

Our challenge, therefore, over the past year has been to determine the specific and most urgent needs of U.S. exporters, their commercial banks and other financing institutions. From this realistic guidance we have undertaken to develop and provide programs and information, within the resources of Eximbank, to assist in a major effort to expand U.S. exports, thereby increasing substantially the U.S. trade balance. We believe that we must—

increase the number of U.S. firms, manufacturers, traders, and merchants who are participating in export sales;

help those who are already in the exporting business increase and improve their business; and

significantly improve the U.S. marketing capability abroad.

In short, we must stimulate and assist American businesses to enter export markets with the same competitive force that is used in this country. Price, one of the important factors in the competitiveness of a product or service, is, of course, adversely affected by current inflationary pressures. But financing—an important element of price—can significantly be reestablished as a favorable factor in our country's sales package.

NEW AND REVISED PROGRAMS

To accomplish this goal, over the past year we have substantially revised most of the existing Eximbank programs, and to date have instituted over 20 new programs to cover specific areas of the most pressing needs. I believe it is important to note that they were initiated to respond to needs of principal exporters and at relatively small cost to Eximbank.

Because these changes are reflected in the Bank's revised budget for fiscal year 1970—which was submitted to the Congress in November of last year and recently enacted into law—and in our estimates for fiscal year 1971, I would like to outline the more significant innovations at this point.

1. *Joint participation financing.*—In virtually all cases involving direct loan applications to Eximbank, we now require substantial participation by private financial institutions. This change was designed to maximize the effectiveness of Eximbank's limited resources and to increase use of private-sector credit, while at the same time moderating the interest rates to counter foreign competition.

2. *Relending credit program.*—Use of relending credits to branches overseas of U.S. financial institutions and to foreign institutions has been reorganized into a systemically planned operation. The purpose is to actively promote sales of certain categories of U.S. products in specific markets where market analysis indicates potentials not now met by U.S. products. The major object of this program is export promotion in providing a seeding effect to produce sales, establish an

effective distribution system and stimulate further development of those markets for U.S. goods.

3. *Preliminary commitment procedure.*—An effective preliminary commitment procedure has been adopted to give U.S. exporters a specific indication of Eximbank's willingness to support their sales efforts and enable them to respond to situations where financing terms are specified as a part of the proposal. Guidelines for borrowers, sellers, and our own internal operations have greatly speeded up handling of these cases at all levels.

4. *Discount loan program.*—The commercial bank export loan program was revised and simplified to assure its application for current exports. The number of banks using this program since July 1, 1969, has more than tripled, thus substantially increasing the private sector resources available for export financing.

5. *Extended use of guarantee authority.*—Increased emphasis is being placed on the authority granted to guarantee repayment of export financing obligations. Through this activity, greater use of financial guarantees encourages larger numbers of commercial banks to participate in export financing and attracts secondary sources of financing thus increasing exports while conserving Eximbank funds.

6. *Foreign financial guarantees.*—Eximbank, as authorized, will now guarantee foreign bank loans to importers if the loan is used to purchase U.S. products. The objective is to marshal funds from abroad for support of U.S. exports and thus provide an immediately favorable impact on the U.S. balance of payments.

7. *Predevelopment support.*—To open up more opportunities for U.S. firms to participate in the first phase of large capital projects in foreign markets, Eximbank will now provide assistance in financing the preparation of conceptual and preliminary engineering, preplanning, or feasibility studies for such projects under specified conditions.

8. *Political risk guarantees for U.S. equipment.*—Guarantees to cover loss or damage from certain specific actions will now be issued to U.S. contractors for equipment to be taken abroad for use in connection with foreign projects that are economically and financially sound.

9. *Lease guarantee program.*—Eximbank will now provide comprehensive guarantee coverage for equipment leased abroad either by U.S. companies with a foreign lessee, or by foreign companies which have purchased U.S. goods and services for leasing to their customers.

10. *Local cost financing.*—To assist American firms in obtaining large and important contracts, the Bank will issue financial guarantees covering loans made by foreign financial institutions for the financing of a part of local costs. This support is available in cases where Eximbank is participating in the financing of the procurement of U.S. goods and services and there is clear indication that such action is necessary to counter foreign competition offering publicly assisted local cost financing.

In addition to these programs, we have taken a number of other significant steps to promote the knowledge and use of Eximbank facilities by exporters and private financial institutions which are either now or could be involved in export sales and financing. Briefly, we have instituted for use by U.S. commercial banks a credit reference service and a personnel training program based on the experience and in-

formation accumulated by Eximbank over its 36 years of operation in the foreign lending field; we will offer guidance and advice to those exporters who have encountered difficulty in obtaining financing for their sales, in order to consummate U.S. sales which might otherwise be lost; we have greatly expanded our seminar programs for commercial bankers and their exporter clients; and we have undertaken, in cooperation with the Department of Commerce, a program of trade promotion and participation in trade fairs and exhibits abroad.

Also, we have instituted within the operation of Eximbank itself a number of changes which are designed to provide faster, better, and more comprehensive service to the U.S. exporting community. Examples of these steps are the establishment of an Export Financing Assistance Office, development of a series of special industry programs, studies of key countries and geographical areas, greater consultation with major U.S. exporting industries, substantially improved procedures for meeting the requirement to sell portions of our assets, monitoring and collection of delinquent accounts, case reporting, and increasing the output of information to the public.

FISCAL YEAR 1970 PROGRAMS

Many of the changes in Eximbank's operations were instituted during the first half of this fiscal year, and therefore necessitated a review and subsequent revision of the fiscal year 1970 budget originally submitted to Congress. In recognition of the Bank's need for additional authority to increase its assistance in support of U.S. export sales, President Nixon, on November 24, 1969, forwarded to the Congress a revised budget for the Bank for fiscal year 1970. He requested that the limitation on our overall new program activity be increased from $2,537,343,000 to $3,427,413,000, within which were included the following major increases:

Net regular loan authorizations—increased from $2,097,200,000 to $2,400,000,000.

Net discount loan authorizations—increased from $200 million to $600 million.

Net guarantees and insurance authorizations—increased from $800,000,000 to $908,165,000.

The fiscal year 1970 increases which we requested, and which Congress approved, were based on information already on hand indicating that the original funds budgeted would not be sufficient to cover the increased number of requests which we were receiving from banks and exporters for assistance under the various Eximbank programs. For example, from July 1, 1969, through November 29, 1969, we received some 242 applications or firm inquiries for direct credit assistance involving some $2 to $2.5 billion of export business. In the first 7 months of operation of the new discount program, we have received requests for over 370 advance commitments from more than 60 commercial banks, far more than triple the cumulative use of that program in past years.

EXPORT EXPANSION FACILITY

As you know, Mr. Chairman, within the past few months we have developed guidelines for the administration of the export expansion

facility. I would emphasize that an important consideration in each case considered under this facility is the "leverage" which can be obtained through the transaction. Principal consideration will be given to the additional benefits to be derived from the consummation of a sale assisted by financing under this facility, rather than the mere consummation of the sale, which is not necessarily responsive to the Nation's long-term commercial interests.

We estimate that charges against the $500 million limitation resulting from loan, guarantee, and insurance transactions under the facility will total $230,715,000 by June 30, 1970. This amount combined with the fiscal year 1969 amount will result in an unused limitation of $226,515,000 at the end of this fiscal year.

RESCHEDULINGS, DELINQUENCIES, LOANS WRITTEN-OFF, AND CLAIMS PAID

I would like to say a word at this point about the repayment experience under Eximbank's programs. In short, we believe it has been excellent.

Since the inception of the Bank through fiscal year 1969, only $6.4 million in loans has been written off, and with subsequent recoveries on these write-offs, only a net of $3.7 million has been charged to the Bank's retained earnings.

This is only two one-hundredths of 1 percent of the total loan disbursements over the same time span. Moreover, there have been very few loans written off in recent years. During the period July 1, 1958, to June 30, 1969, only eight loans totalling $717,000 were written off as uncollectable. In fiscal year 1969, no loans were written off.

As of December 31, 1969, a total of $18 million of principal and interest had been delinquent for 30 days or more, and $97 million was in a state of protracted default. Even if this entire $116 million were written off, only $119.7 million would have been charged to the Bank's retained earnings—a loss percentage of only eight-tenths of 1 percent of total disbursements.

In addition, from the inception of the Bank to January 31, 1970, approximately $1,080 million in payments due has been or is in the process of being rescheduled. I have appended to my statement a table listing these rescheduled loans. The Bank undertakes such reschedulings when the borrower clearly needs it and in the expectation that revised payments schedules will facilitate full repayments of the credits.

Since the inception of the Bank through June 30, 1969, our net losses under the guarantee and insurance programs have been only $4.6 million as against total guarantee and insurance authorizations of $8.1 billion through the same period, a loss percentage of less than one-tenth of 1 percent.

Even though Eximbank has this excellent record with regard to bad debts, we have now taken positive steps to increase our monitoring of the Bank's loans. The Vice President for Financing has been assigned the responsibility of immediately investigating any loan which has had an installment delinquent for more than 30 days, and the overall responsibility for monitoring any deliquent or late-paying loan has been vested in a member of our Board of Directors. We ae confident that these procedures will enable the Bank to continue to experience such an extremely low level of bad debts.

FISCAL YEAR 1971 BUDGET

The Banks' fiscal year 1971 budget estimates reflect our continuing emphasis on providing assistance to U.S. exporters and commercial banks in the areas of demonstrated need. Every program or procedure is designed to further expedite and encourage the use of export financing from the private sector, which is necessary to stretch Eximbank's resources to their maximum possible effectiveness. We expect continued high level use of the new discount program, an expansion of our guarantee and insurance programs, and increased activity in the regular loan programs. The fiscal year 1971 budget estimates—

$2.9 billion for regular loan authorizations.
$700 million for discount loan authorizations.
$2.6 billion for gross guarantee and insurance authorizations.
$6.6 million for administrative expenses.

Of the $2.9 billion net regular loan authorizations, $2,775 million is for equipment and services loans, $75 million is again programed for direct loans to support cotton exports, and $50 million is budgeted for special foreign trade authorizations. These amounts combined with the $700 million included for discount loans provide net loan authorizations for the fiscal year of $3.6 billion.

I would like to add here that in addition to our historic cotton credit authorizations, we are placing increased emphasis on efforts to support exports of other agricultural commodities under our various other programs.

Included in the amount for equipment and services loans is $300 million requested by the Department of Defense for support of military equipment and services sales to developed countries.

We expect guarantee and insurance authorizations to account for $2.6 billion in fiscal 1971, up some $600 million from our anticipated authorizations this year. This reflects both an expansion in these programs and our increased reliance on the guarantee authority in developing export financing packages.

These programs result in net new program activity for the year of $4,075,483,000, which is the amount proposed in the budget for the statutory limitation on new program activity.

The Bank is requesting $6.6 million for administrative expenses for the next year, principally for personnel compensation and benefits. This reflects a modest increase in staff proposed for next year, from a year-end staff level of 350 persons at June 30, 1970, to 375 on board at the end of fiscal year 1971. Although our administrative procedures are constantly being revised to increase efficiency and to provide better and faster service for our customers, the increased workload more than offsets the increased efficiencies. For example, credits authorized are estimated to increase from 120 in the past fiscal year to over 200 in fiscal year 1971, with total active credits increasing from approximately 650 to about 800 in the same period. Other increases in this account provide for additional travel for the Bank's directors, officers, and staff, both in the United States and abroad, and for additional printed material describing Eximbank's programs. We consider the efforts supported by this funding critical to providing the U.S. exporting community with the necessary information on the resources available from the Bank and for carrying out those programs which are

designed to maximize private participation in the export expansion drive.

Net income for next year is estimated at $120 million from which we expect to again pay an annual dividend to the Treasury of $50 million.

Eximbank's net budget outlay for fiscal year 1971 is projected at $195 million, after deducting estimated receipts of $1,984.2 million from disbursements calculated at $2,179.2 million.

Mr. Chairman, we believe that this budget indicates the minimum level of assistance which will be required from the Export-Import Bank for the next fiscal year, and for succeeding years, if the Bank is to effectively and efficiently discharge its function of assisting in financing and facilitating the U.S. export trade. I would emphasize again that all of our programs have been designed to achieve a multiplier effect for increasing U.S. exports by use of both Eximbank resources and, to the maximum extent possible, use of private sources for export financing. The need for this combination of resources is clearly visible, and the urgency in obtaining it grows each day if this country is to reverse the downward trend in the U.S. balance of trade account.

(The chart follows:)

EXPORT-IMPORT BANK OF THE UNITED STATES

RESCHEDULED LOAN OBLIGATIONS FROM INCEPTION OF EXIMBANK TO JAN. 31, 1970

Country	Amount rescheduled	Date of rescheduling authorized
Congo	$200,000.00	Apr. 17, 1967.
Ethiopia	308,331.00	Dec. 27, 1967 and May 22, 1969.
Liberia	18,964,540.00	Various; most recent, Mar. 31, 1969.
Sierra Leone	1,275,000.00	Oct. 1, 1968.
Total, Africa	20,747,871.00	
China (Taiwan)	6,220,573.85	Various.
India	8,232,670.00	Various; most recent, June 30, 1969.
Indonesia	30,599,419.69	Aug. 17, 1967.
	14,043,365.52	Sept. 5, 1968.
Pakistan	328,000.00	Sept. 24, 1964.
Philippines	714,400.00	Oct. 4, 1966 and Oct. 30, 1976.
Total, Asia	60,138,429.06	
Finland	90,061,791.40	Mar. 22, 1951.
Greece	94,660.68	Sept. 16, 1965.
Spain	1,633,352.00	Dec. 7, 1967.
Yugoslavia	7,000,000.00	Dec. 23, 1965.
Total, Europe	98,789,804.08	
Argentina	84,408,328.51	Various; most recent, Oct. 10, 1968.
	6,639,772.05	Various; most recent, Dec. 23, 1968.
Bolivia	33,918,739.67	Aug. 4, 1966.
Brazil	616,844,693.97	Various; most recent, June 25, 1964.
Chile	89,176,066.74	Various; most recent, Mar. 24, 1969.
Colombia	1,131,073.48	Various; most recent, June 13, 1966.
Costa Rica	5,170,120.44	Various; most recent, Dec. 2, 1965.
Dominican Republic	400,000.00	June 26, 1967.
Ecuador	323,529.40	
Haiti	34,973,911.34	Various; most recent, July 20, 1965.
Mexico	4,000,000.00	May 25, 1964.
Peru	130,000.00	Nov. 9, 1964.
Venezuela	2,689,551.00	Various; most recent, May 2, 1968.
Total, Latin America	879,805,786.60	
Grand total	1,059,481,890.74	

Note: The $1,080,000,000 referred to in Mr. Kearns' statement consists of the $1,059,000,000 above and $20,300,000 of United Arab Republic credits for which rescheduling discussions have been initiated.

Mr. PASSMAN. Thank you very much for your statement, Mr. Kearns.

FISCAL YEAR 1971 LENDING PROGRAM

Your 1971 estimate is for a total limitation of $4,075,483,000 for the various activities of the Bank, except for your administrative expenses; is that correct?

Mr. KEARNS. That is correct.

Mr. PASSMAN. That is an increase of $648,070,000 over fiscal 1970.

Mr. KEARNS. Yes, sir.

WINDOW 1—REGULAR LOANS

Mr. PASSMAN. As I understand your operations, you have three categories of lending programs, which we refer to as your three windows.

The first window is your regular loans, which have been standard for a long time, and usually carry a maximum maturity of about 7 years.

Mr. KEARNS. We actually consider we have four, and there is one subdivision.

Mr. PASSMAN. Window one loans generally carry a term of 1 to 7 years, is that correct?

Mr. KEARNS. Yes.

WINDOW 2—LONG-TERM EQUIPMENT AND SERVICES LOANS

Mr. PASSMAN. Then you have the second window, as we refer to it, where you can finance industrial loans with a maturity of up to 25 years. Do I understand that correctly?

Mr. KEARNS. We consider all of our direct credits in one category.

Mr. PASSMAN. I know you do, but I do not. I am trying to get it where I understand it, because loan maturities of up to 25 years is relatively new. That window is only about 4 or 5 years old, is it not?

Mr. KEARNS. We do not finance to 25 years actually, Mr. Chairman.

Mr. PASSMAN. Under your legislation you are permitted to go up to 25 years?

Mr. KEARNS. We are permitted, but as a matter of practice we do not.

Mr. PASSMAN. But you do have some long-term loans, do you not?

Mr. KEARNS. Yes, we do, but not as long as 25 years.

WINDOW 3—EXPORT EXPANSION LOANS

Mr. PASSMAN. Window 3 is this new program, I believe, approved by the Congress a year or two ago whereby you lower your credit criteria so that you can make certain loans to firms and nations who could not meet the rigid criteria normally established by Export-Import Bank.

That is Window 3, is it not?

Mr. KEARNS. Yes.

WINDOW 4—DISCOUNT LOANS

Mr. PASSMAN. What is window 4?

Mr. KEARNS. We have what we call a discount loan. This is where we loan to commercial banks against their export paper for current exports.

Mr. PASSMAN. Is that a new item in our bill?

Mr. KEARNS. No; it is authorized under our basic lending authority. This program has been in operation for about 3 years.

Mr. PASSMAN. It is new as we think in terms of the Export-Import Bank. It is relatively new.

Mr. KEARNS. That is right.

Mr. PASSMAN. You have this facility for a commercial bank in New Orleans or in New York that may finance exports?

Mr. KEARNS. That is right.

Mr. PASSMAN. What is the length of those loans?

Mr. KEARNS. Five years.

Mr. PASSMAN. It could be less.

Mr. KEARNS. Up to 5 years.

Mr. PASSMAN. What rate of interest do you charge them?

Mr. KEARNS. Under the program now in effect we charge 1 percent less than they charge the customer, or if we insure or guarantee the underlying export paper, one-half of 1 percent less than they charge the customer.

Mr. PASSMAN. If they charge the customer 4 percent, you make it available at 3 percent?

Mr. KEARNS. In no case less than 6 percent.

Mr. PASSMAN. I see, you said 1 percent less.

Mr. KEARNS. I did not quite understand that.

Mr. PASSMAN. You do have a certain bracket they have to fit this into.

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. What is the prevailing interest rate charged? Is it as high as the Government pays to borrow money?

Mr. KEARNS. It varies on these discount loans because it depends on what rate the individual commercial bank making the loan feels is necessary to provide in order for their customer, the exporter, to get the business. They will vary all the way from 7 percent up. I think the highest rate which we have supported has been 11.5 percent.

Mr. PASSMAN. And as low as what?

Mr. KEARNS. Six percent.

Mr. PASSMAN. As we operate today, it could be that the commercial bank would charge their customer 7 percent, and you would charge that bank 6 percent.

Mr. KEARNS. That is correct, for unguaranteed paper.

Mr. PASSMAN. If we are paying 7½ percent to borrow the money on today's market, that means you are subsidizing that loan by 1½ percent.

Mr. KEARNS. We are in effect subsidizing the export.

Mr. PASSMAN. You are subsidizing the commercial bank. The purpose of the bank is to sell our commodities.

Mr. KEARNS. That is right. Our purpose is to assist in sales of U.S. products.

Mr. PASSMAN. You do not sell commodities.

You are strictly in the finance field.

Mr. KEARNS. That is correct.

Mr. PASSMAN. In reality, under that type of loan there is a 1½-percent subsidy to the commercial bank?

Mr. KEARNS. That is correct.

JUSTIFICATION DATA

Mr. PASSMAN. I guess that is the way it will have to be. We will insert in the record at this point pages 1, 2, 3, 4, 7 and 10 of the justifications.

(The information follows:)

Export-Import Bank of the United States—Estimated Activity, Fiscal Year 1971

[In thousands of dollars]

Loan program:	
Equipment and services authorizations	3,000,000
Commodity authorizations	75,000
Discount authorizations	725,000
Special foreign trade authorizations	50,000
Subtotal, gross loan authorizations	3,850,000
Less: Participations in and cancellations of loans authorized during fiscal year 1971	250,000
Net loan authorizations	36,600,000
Guarantee and insurance program:	
Authorization of new and renewed policies	2,600,000
Less: Repayment and cancellations on guarantees and insurance	1,662,264
Subtotal	937,736
Less: Reduction from use of fractional reserve and adjustments	703,302
Charge to new program activity for guarantee and insurance	234,434
Other charges to program activity:	
Interest and nonadministration expenses [1]	240,949
Equipment and all other [1]	100
Total other than for administrative expense: "New program activity"	4,075,483
Administration expense [1]	6,613
Total	4,082,096

[1] On the accrual basis.

COMPARATIVE STATEMENT OF NEW PROGRAM ACTIVITY AND ADMINISTRATIVE EXPENSE

[In millions of dollars]

	Fiscal year		
	1969 actual	1970 estimate	1971 estimate
1. Loan authorizations (a)	1,168.5	3,200.0	3,850.0
Cancellations and participations in authorizations issued during current fiscal year	−32.4	−200.0	−250.0
Loan authorizations net	1,136.1	3,000.0	3,600.0
2. Guarantees and insurance:			
Authorizations, new and renewed policies:			
Issued subject to fractional reserve basis (b)	1,221.5	2,000.0	2,600.0
Transfers to loan program	−11.1	−.1	
Repayments, cancellations and expirations:			
Subject to fractional reserve	−958.7	−1,130.8	−1,662.3
Issued at 100 percent	−6.0	−2.1	
Subtotal-(100 percent)	245.7	867.0	937.7
Reduction from use of fractional reserve and adjustments	−209.0	−642.1	−703.3
Net charge to activity for guarantees and insurance	36.7	224.9	234.4
3. Interest and nonadministrative expense [1]	172.6	202.4	240.9
4. Equipment [1]	.1	.1	.1
5. Total new program activity	1,345.5	3,427.4	4,075.4
6. Administrative expense [1]	4.6	6.0	6.6
7. Total	1,350.1	3,433.4	4,082.0

[1] On the accrual basis.

FOOTNOTES TO COMPARATIVE STATEMENT OF NEW PROGRAM ACTIVITY

[In millions of dollars]

	Fiscal year		
	1969 actual	1970 estimate	1971 estimate
(a) Analysis of loan authorizations:			
Discount loans—gross [1]	185.1	605.0	725.0
Less: Repayments	126.7	(1)	(1)
Subtotal	58.4	605.0	725.0
Equipment and services loans	985.1	2,420.0	3,000.0
Commodity loans	75.0	75.0	75.0
Special foreign trade loans	50.0	100.0	50.0
Total	1,168.5	3,200.0	3,850.0
(b) Guarantees and insurance authorizations:			
Guarantees	396.9	706.5	1,069.0
FCIA Insurance:			
Short term	666.2	900.0	1,000.0
Medium term	158.1	392.5	530.0
Onshore insurance	.3	1.0	1.0
Total	1,221.5	2,000.0	2,600.0

[1] Discount loans were shown net of repayment in fiscal year 1969. They are shown gross in fiscal years, 1970 and 1971, thus showing them now on the same basis as regular loan program authorizations.

POSITION WITH RESPECT TO $13.5 BILLION LENDING, GUARANTEE, AND INSURANCE AUTHORITY (PER THE EXPORT-IMPORT BANK ACT OF 1945)

[In millions of dollars]

	June 30, 1969 actual	June 30, 1970 estimate	June 30, 1971 estimate
Statutory Authority	13,500.0	13,500.0	13,500.0
Charges against authority:			
Outstanding loans receivable	5,421.5	6,139.2	6,450.4
Loans sold with recourse [1]	479.2	469.9	831.2
Undisbursed authorizations, loan agreements signed	1,960.0	2,500.0	3,400.0
Undisbursed authorizations, loan agreements unsigned	502.3	1,017.3	1,634.4
Subtotal	8,363.0	10,126.4	12,316.0
Guarantee and insurance programs: [2]			
Short term:			
Commitment to Foreign Credit Insurance Association	181.3	250.0	275.0
Medium term:			
Foreign Credit Insurance Association	48.3	110.9	182.9
Export-Import Bank of the United States	135.5	229.0	366.5
On-shore insurance	2.5	2.5	2.5
Subtotal	367.6	592.4	826.9
Total charges against authority	8,730.6	10,718.8	13,142.9
Unused authority	4,769.4	2,781.2	357.1

[1] In general, charged at 100 percent.
[2] In general, charged fractionally at 25 percent.

ESTIMATE OF NET BUDGET OUTLAYS ON THE CASH BASIS

[In millions of dollars]

	Fiscal year		
	1969 actual	1970 estimate	1971 estimate
Disbursements:			
Regular loans	1,478.6	1,373.2	1,302.8
Discount loans	186.8	412.0	600.0
Repurchase of loan sold with recourse		350.7	
Interest and financial expense	163.8	201.5	239.8
Operating expenses	4.8	5.8	6.6
Letters of credit reimbursed	35.0	27.7	30.0
All other	9.1	.1	
Total	1,878.1	2,371.0	2,179.2
Receipts:			
Principal—regular loans	797.7	876.1	908.1
Principal—discount loans	126.7	158.0	183.5
Loans sold	378.1	384.0	500.0
Interest and fees	293.3	322.5	357.6
Unpaid letters of credit advances	27.7	30.0	35.0
All other	8.3		
Total	1,631.8	1,770.6	1,984.2
Net budget outlays	246.3	600.4	195.0

COMPARATIVE STATEMENT OF ADMINISTRATIVE EXPENSE BUDGETS (ON THE ACCRUAL BASIS)

[In thousands of dollars]

	1969 actual	1970 estimate	1971 estimate
Personnel compensation:			
Permanent positions	3,484	4,510	4,919
Temporary employment	8	11	17
Pay above stated annual rate	14	18	20
Overtime and holiday pay	20	27	23
Advisory committee pay	3	10	12
Reimbursable detail	15	44	73
Excess of annual leave earned over leave taken	39	46	50
Total	3,583	4,666	5,114
Personnel benefits contribution:			
Retirement	223	291	352
Health benefits	18	19	20
Employees life insurance	14	19	19
FICA taxes and incentive awards	3	7	8
Accident compensation		1	1
Total	258	337	400
Travel and transportation of persons	45	202	207
Transportation of things	3	4	5
Rent, communications, and utilities:			
Rent, office space	416	420	430
Rent, storage space	7	5	7
Communications	65	66	82
Postage	18	19	20
All other	35	48	53
Total	541	558	592
Printing and reproduction	25	45	52
Other services:			
Contractural services and supplies	105	113	177
Official entertainment allowance	4	12	12
Total	109	125	189
Supplies and materials	38	50	54
Total expenses	4,602	5,987	6,613
Savings	330		
Budget limitation	4,932	5,987	6,613

BIOGRAPHIES OF NEW ADVISORY COMMITTEE MEMBERS

Mr. PASSMAN. Mr. President, I notice you have had several changes in the membership of the Advisory Committee since last year.

If you would, please identify the new members and place their biographical sketch in the record at this point.

Mr. KEARNS. We will submit that for the record, sir.

(The information follows:)

EXPORT-IMPORT BANK ADVISORY COMMITTEE MEMBERS APPOINTED SEPTEMBER 1, 1969

ALLAN SHIVERS

Allan Shivers, who is serving as the Export-Import Bank Advisory Committee's Chairman, is presently chairman of the board of Austin National Bank, in Texas. Mr. Shivers was Governor of Texas from 1949 to 1957 and had been Lieutenant Governor of that State for 2 years prior. He was in the Texas Senate from 1935 to 1946. A past president of the U.S. Chamber of Commerce, Mr. Shivers currently is also a director of Texas National Bank of Commerce; Texas Gulf Sulphur Co.; Champlin Petroleum Co.; Citizens State Bank; Dresser Industries, Inc.; Global Marine, Inc.; Celanese Corp. of America; Capital National

Bank; Frontier Airlines, Inc.; Lone Star Cement Co.; Texas Good Roads Association; Houston First Savings Association; and an advisory director of the Chemical Bank & Trust Co., Houston. Mr. Shivers is a graduate of the University of Texas, B.A. 1931, LL. B., 1933 and holds numerous honorary degrees from his own University and others in the West. He is a resident of Austin, Tex.

STEPHEN DAVIDSON BECHTEL

Stephen Davidson Bechtel is senior director of the Bechtel Corp., San Francisco. He was a member of President Eisenhower's Advisory Committee on a National Highway Program from 1954 to 1955, and has also served on the Business Advisory Council for the Department of Commerce; the Directors Advisory Council and the International Council for Morgan Guaranty Trust Co.; the World Affairs Council of Northern California; the California Institute of Technology Associates; the American Society of Civil Engineers; the Society of American Military Engineers; the American Petroleum Institute; the Consulting Constructor's Council of America; and the Society of Naval Architects and Marine Engineers. He is a senior member of the National Industrial Conference Board; director of Industrial Indemnity Co.; the Southern Pacific Co., and Stanford Research Institute; president and director of Lakeside Corp. and trustee of the Ford Foundation. Mr. Bechtel attended the University of California and is a registered professional engineer of the State of California. He has honorary LL. D. degrees from the University of California and Loyola University and an honorary degree in Engineering from the University of the Pacific. He is a resident of Oakland, Calif.

WALKER LEE CISLER

Walker Lee Cisler is chairman of the board and chief executive officer of the Detroit Edison Co., where he has been actively engaged in the development of atomic energy since 1942. He is present of the Fund for Peaceful Atomic Development, Inc. and was the first president of the Atomic Industrial Forum. He is also chairman of the U.S. National Committee of the World Energy Conference. In August, 1968, he assumed the duties of chairman of the conference's international executive council, becoming the first American to hold this high office. He has been decorated by the U.S. Government and 13 foreign governments in recognition of his interest in their behalf in coordinating electric power facilities for international use during the war years, and subsequently as consultant to various agencies set up by Congress to assist overseas countries on electric power matters. Mr. Cisler is a graduate of Cornell University with a degree in mechanical engineering, and has been awarded honorary degrees in law and engineering by 14 U.S. colleges and universities. He is a resident of Grosse Pointe Park, Mich.

KENNETH P. KINNEY

Kenneth P. Kinney is vice president in charge of the International Department, Northern Trust Co., Chicago. He was recently elected as president and a director of the Banker's Association for Foreign Trade (BAFT), and is also a director of the Chicago Council on Foreign Relations. He had been associated with the First National City Bank of New York and with the Chemical Bank and New York Trust Co. before joining the Northern Trust staff in Chicago in 1955. Mr. Kinney received his A.B. from Princeton University in 1943 and also attended the New York University Graduate School of Business Administration. He is a resident of Hinsdale, Ill.

The Advisory Committee consists of nine members, appointed by the Board of Directors on the recommendation of the President of the Bank. The Committee is broadly representative of production, commerce, finance, agriculture, and labor. The Export-Import Bank Act of 1945, as amended, states that the Advisory Committee shall meet one or more times per year, on the call of the President of the Bank, to advise the Bank on its programs.

Presently, the committee meets four times a year to review the Bank's programs, receive progress reports and briefings on the Bank's operations, and offer advice and suggestions regarding the Bank's activities. The vigorous role of the Advisory Committee has materially assisted the Bank in the development and implementation of its new programs.

Mr. PASSMAN. You might also under your streamlined operation stay on top of these problems and naturally recruit the very best personnel obtainable for your Advisory Committee members.

You might also put a little statement as to their duties. We know how they are compensated. It is out of the profits of the operation and within your limitations.

SALARIES OF DIRECTORS AND OFFICERS OF THE BANK

Are there any secrets about the salaries of your top people?

Mr. KEARNS. No, sir. They are all under the civil service regulations. We will be very glad to insert that information in the record, if you wish.

Mr. PASSMAN. That is the President and the Board of Directors.

Mr. KEARNS. Not the officers?

Mr. PASSMAN. And officers; yes.

Mr. KEARNS. Except for the President and the First Vice President, the officers are not directors.

(The information follows:)

EXPORT-IMPORT BANK OF THE UNITED STATES

SALARIES OF OFFICERS AND DIRECTORS AS OF DEC. 31, 1969

Title	Executive level or GS-grade	Salary
Chairman of the Board	Executive level III	$40,000
Vice Chairman	Executive level IV	38,000
Director	do	38,000
Do	do	38,000
Do	do	38,000
Executive Vice President	GS-18	33,495
Vice President for Planning and Export Expansion	GS-17	29,942
Vice President for Exporter Credits, Guarantees, and Insurance	GS-17	32,840
Vice President for Financing	GS-17	31,874
Vice President for Project Development	GS-15	28,069
General Counsel	GS-17	28,976
Treasurer-Controller	GS-16	25,044
Secretary	GS-15	22,039

PRESIDENTIAL DETERMINATIONS

Mr. PASSMAN. Would you inform us of any Presidential determinations that have been made in the last year?

Mr. KEARNS. The President has made no determinations pursuant to statutory requirements for Eximbank during this past year.

Mr. PASSMAN. He has not?

Mr. KEARNS. No, sir.

TRADE WITH COMMUNIST COUNTRIES

Mr. PASSMAN. If you would, please update the table which appeared in last year's hearings on page 19, showing the amount of trade between the United States and various Communist countries.

(The information follows:)

EXPORT-IMPORT BANK OF THE UNITED STATES

U.S. EXPORTS TO AND IMPORTS FROM EASTERN EUROPE AND COMMUNIST AREAS IN ASIA, 1962-68 AND JANUARY TO JUNE 1969

[Thousands of dollars]

Country	1962	1963	1964	1965	1966	1967	1968	January to June 1969
Total exports, including reexports	125,369	166,817	339,926	140,010	197,738	195,259	215,024	102,622
Eastern European areas	125,365	166,814	339,923	140,009	197,737	195,258	215,024	102,618
Albania	2	(1)	19	8	166	56	8	15
Bulgaria	33	136	5,020	3,613	3,631	4,219	4,036	1,667
Czechoslovakia	7,173	9,791	11,338	27,685	37,336	19,155	13,956	5,401
East Germany	1,698	6,403	20,211	12,413	25,152	26,329	29,047	9,461
Estonia							2	
Hungary	837	17,371	13,753	9,327	10,053	7,570	11,194	3,243
Latvia	4,887	2,364	1,807					
Lithuania	1	323					1	
Poland	94,577	108,936	138,066	35,417	52,988	60,825	82,375	23,462
Rumania	802	1,249	5,156	6,385	26,686	16,796	16,680	12,975
U.S.S.R.	15,355	20,241	144,553	45,161	41,725	60,308	57,725	46,394
Communist areas in Asia	[2]4	[2]3	[2]3	[2]1	[2]1	[2]2	(1)	2
China, including Manchuria	[2]4	[2]3	[2]3	[2]1	[2]1	[2]1		
Outer Mongolia			(1)			1		2
North Korea								
North Vietnam	(3)	(3)	(3)	(3)				
Total general imports	82,442	85,142	102,305	141,590	182,180	179,814	200,755	100,331
Eastern European areas	78,918	81,489	98,516	137,496	178,668	177,224	198,429	98,642
Albania	123	117	102	113	109	335	283	57
Bulgaria	1,136	1,195	1,177	1,666	2,529	2,814	3,731	1,003
Czechoslovakia	9,989	10,369	12,706	16,741	27,695	26,241	23,756	11,413
East Germany	3,096	3,158	6,686	6,537	8,194	5,647	5,934	4,034
Estonia	(1)	6	96	13	113	55	67	9
Hungary	1,813	1,581	1,693	2,092	2,985	3,884	3,848	1,850
Latvia	1	810	418	12	18	34	16	7
Lithuania	(1)	15	4	33	8	32	5	1
Poland	45,836	43,119	54,202	65,861	82,948	90,960	96,871	51,717
Rumania	626	789	1,272	1,836	4,655	6,176	5,553	3,350
U.S.S.R.	16,298	20,330	20,160	42,592	49,414	41,046	58,365	25,202
Communist areas in Asia	3,524	3,653	3,789	4,094	3,511	2,590	2,327	1,688
China, including Manchuria	241	264	477	463	102	181	(1)	25
Outer Mongolia	3,283	3,389	3,312	3,631	3,409	2,409	2,326	1,663
North Korea								
North Vietnam	(3)	(3)	(3)	(3)				

[1] Less than $500.

[2] Figures shown include printed matter under general license and shipments to diplomatic missions of friendly foreign countries.

[3] Not reported separately.

Note: Exports are shown by area of destination. Imports are credited to the area in which the merchandise was originally produced, not necessarily the area from which purchases and shipments were made. General imports represent merchandise entered immediately upon arrival into merchandising or consumption channels plus commodities entered into bonded customs warehouses for storage.

United States exports to North Korea were embargoed July 1950, and those to Communist China, Manchuria, and Outer Mongolia were embargoed the following December. On Mar. 1, 1951, general export licenses to Eastern European areas were revoked and the requirement of prior approval by license was extended to cover all exports to this area. On July 26, 1954, exports to North Vietnam were embargoed. Since mid-1954 the policy with respect to exports of nonstrategic goods to Eastern European areas has been liberalized to some extent. In particular, a less restrictive policy with respect to Poland has been pursued since August 1957, and with respect to Romania since July 1964. On April 26, 1956, a general license was established authorizing the export without a validated license of certain commodities to Albania, Bulgaria, Czechoslovakia, East Germany, Estonia, Hungary, Latvia, Lithuania, Outer Mongolia, Poland, Romania, and the U.S.S.R., except the Maritime Province. Pursuant to the Trade Agreements Extension Act of 1951, benefits of trade agreement tariff concessions were withdrawn from the U.S.S.R. and other Eastern European areas and an embargo was imposed on the import of certain furs from China and the U.S.S.R.

Controls over imports of Chinese and North Korean merchandise are exercised by the Treasury Department under foreign assets control regulations issued Dec. 17, 1950. On May 5, 1964, license control of imports from North Vietnam was added to these regulations. Under these regulations the import of Chinese goods is prohibited without license by the Treasury Department, and it is contrary to the present policy of that agency to license such imports. Some items of Chinese origin, however, continue to appear in the statistical records of U.S. imports. For example, duty-free merchandise permitted entry for customs inspection but subsequently rejected when determined to be of Chinese origin, may be counted in the statistics. The figures may also include imports licensed to avoid undue hardship to firms and individuals who acquired the Chinese merchandise in good faith and imports, from third countries, of Chinese products in which all Chinese interests had ceased by Dec. 17, 1950. In U.S. import statistics, goods of Chinese origin are credited to China regardless of the last country from which they were shipped.

Note: Figures may not add because of rounding.

Source: "Export Control," 89th Quarterly Report, 3d Quarter 1969, Table B, U.S. Department of Commerce.

Mr. KEARNS. Yes, sir. Our activity with Communist countries during the past years has been limited to Yugoslavia, under a Presidential determination issued sometime ago.

Mr. PASSMAN. Not Poland.

Mr. KEARNS. No, sir.

Mr. PASSMAN. How many Communist countries have we done business within the past 3 years.

Mr. KEARNS. Since March of 1968 when Congress amended the Export-Import Bank Act in this connection, only one, sir—Yugoslavia.

Mr. PASSMAN. In this instance it is based on dollar payments with the prevailing interest rate, is it not?

Mr. KEARNS. We apply the same rates and criteria in transactions with Yugoslavia that we do with other countries.

Mr. PASSMAN. This is not a grant?

Mr. KEARNS. No.

Mr. PASSMAN. That is a loan, or guarantee?

Mr. KEARNS. A loan, guarantee, or insurance.

Mr. PASSMAN. You are expecting to be repaid in dollars, under the prevailing interest rate.

Mr. KEARNS. Yes, sir. In all cases involving loans or guarantees we require the guarantee of an official government agency that is qualified to provide dollar exchange for the servicing of loans.

Mr. PASSMAN. Are you talking about our Government?

Mr. KEARNS. No, the Yugoslavian Government entity that is qualified and authorized to supply dollar exchange.

Mr. PASSMAN. That is true in every one of your loans, is it not?

Mr. KEARNS. Most of them.

Mr. PASSMAN. You do not accept any local currencies in repayment of any of your loans, do you?

Mr. KEARNS. No. In any country where there are restrictions on foreign exchange we do require a guarantee from an entity that has the authority and ability to service the credit in dollars.

We do not waive this requirement at all in cases involving Yugoslavia.

Mr. PASSMAN. In other words, if they cannot meet the conditions upon the loan offered, you just do not make the loan?

Mr. KEARNS. That is correct, sir.

Mr. PASSMAN. I do not believe there is anything wrong with selling nonstrategic materials and commodities to a Communist country if we get dollars back in repayment. If we are ever going to lift the Iron Curtain and help the people and the small nations behind the Iron Curtain gain some degree of freedom, and impart to them knowledge about our system of government, we will certainly have to do some kind of business with them.

You cannot block off two-thirds of the peoples of the world and say either do it our way, or else. I am not a bit sympathetic to these Communist regimes, but I am quite reasonable about trade. I fought for the wheat sale to Russia several years ago, knowing we would get dollars back. Sometimes people get afraid of their shadows on these things.

I do not believe in giving them any grants or any strategic materials, but if they buy certain commodities and we get back dollars, we are really helping ourselves, are we not?

Mr. KEARNS. That is correct.

Mr. PASSMAN. There is a great deal of demagogery in this area.

PROJECTED INCREASE IN LENDING PROGRAM

You project an increase of $648,070,000 for fiscal 1971 in new program activity; is that correct?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. You propose to finance this under your present lending authority?

Mr. KEARNS. We finance our disbursements through receipts from operations, borrowing from the Treasury and in the private market, plus the sale of our assets.

Mr. PASSMAN. It comes within your present authorized ceiling on your lending authority?

Mr. KEARNS. Yes, sir.

CHARGE AGAINST LENDING AUTHORITY INCURRED IN SALE OF ASSETS

Mr. PASSMAN. As to the sale of your assets, what reserves do you have to maintain in support of those sales?

Mr. KEARNS. We maintain 100-percent reserve where we have guaranteed the sale of an asset.

Mr. PASSMAN. Then how are you able to squeeze any money out of the sale of assets if you have to reserve the same mount of the sale?

Mr. KEARNS. We charge the contingent liability at 100 percent against our lending authority. At this time this is adequate to cover all such contingencies.

Mr. PASSMAN. I knew that. But if you sell $100 million worth of your assets, to a bank, do you have to set aside certain reserves out of your lending authority?

We discussed that at one time and you had some misgivings about it.

Mr. KEARNS. We have not felt it was necessary to set up separate cash reserves.

Mr. PASSMAN. But you cannot dispose of a billion dollars worth of assets and at the same time make loans totaling your entire lending authority, can you?

Mr. KEARNS. As a matter of fact, we have considerable margin between our authority and the amount we have outstanding.

Mr. PASSMAN. Do you reserve part of your lending authority against this contingent liability where you have sold these assets, or do you sell them without recourse?

Mr. KEARNS. We generally sell them with recourse. But we do charge our authority at 100 percent and we feel we have sufficient flexibility to meet any recourse requirements.

Mr. PASSMAN. I understand that. Do you ignore completely your contingent liability as it applies to your limitation when you sell securities with recourse?

Mr. KEARNS. No, sir; we do not ignore it.

Mr. PASSMAN. I am only asking the question as to whether you take into account the need to keep a margin between the absolute ceiling and the amount you have actually authorized for loans so as to protect the contingent liability. That is the point I am making.

Mr. KEARNS. Yes, sir. We recognize that. At all times we observe the margin that still remains in our authority.

Mr. PASSMAN. What margin do you try to maintain between the lending authority ceiling and your loans authorized level to provide for the contingent liability that you may have on the sale of assets?

Mr. KEARNS. We have not set aside a specific figure.

Mr. PASSMAN. What does it usually run percentagewise?

Mr. KEARNS. We have had very little trouble with that.

Mr. PASSMAN. I know that. I will ask the question this way. What is your margn between the ceiling and the level that you have committed? You have never used all of your lending authority, have you, in any one year?

Mr. KEARNS. I don't quite understand your question, Mr. Chairman.

Mr. SAUER. The closest we have been, I believe, is $845 million. Today we have $4.6 billion.

As Mr Kearns said, we charge against our overall lending authority of $13.5 billion 100 percent of each sale done on recourse.

Mr. PASSMAN. You answered my question completely and concisely.

Mr. SAUER. The Chairman did, too, but I think it was missed in the subsequent colloquy.

Mr. PASSMAN. I understand it completely now.

REFINANCED LOANS

Mr. PASSMAN. What percentage of your outstanding loans have you found necessary to roll over during this fiscal year?

Mr. KEARNS. During this fiscal year except for several credits deferred for approximately 6 months, we have not rolled over any.

Mr. DUGAN. That is correct, sir.

Mr. KEARNS. We have had no reschedulings this year other than those shown in the attachment to my statement.

Mr. PASSMAN. You talk about rescheduling. Rescheduling does not mean a thing in the world but taking a delinquent loan and bringing it up to date.

Mr. KEARNS. That is right.

Mr. PASSMAN. We use this high fallutin language so no one knows what we are talking about. I have had a little experience in financing and had $2 million of receivables and I had no delinquent accounts. When one became delinquent I would add something to it and rewrite it. I had to rewrite some contracts four or five times and it would take 7 years to pay out a 24-month contract, but they were never delinquent. It is a good system. I am not criticizing it. If you give a person a break some day he will pay it off. The man that is poor today may be well off 3 years from now. I am not criticizing the policy of rolling over these loans. We discussed this procedure in a little more detail in the past than we have discussed it this afternoon but we do understand what it is all about.

Mr. KEARNS. Mr. Chairman, in my statement I specifically included the amounts of all of the bank's delinquencies, defaults, loans written off and reschedulings, and included a detailed list of every loan that has been rescheduled.

(Discussion off the record.)

DISCOUNT LOAN PROGRAM

Mr. PASSMAN. The revised discount loan program, I believe, was inaugurated at the beginning of fiscal 1970, was it not?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. So it has been in effect only 1 year.

Mr. KEARNS. In its present form, that is right.

Mr. PASSMAN. Will you give us a report as to how successful it has been?

Mr. KEARNS. Success is a relative term. We think it is exceedingly successful. Measure that by what banks and exporters report to us.

Mr. PASSMAN. Relative to what?

Mr. KEARNS. Relative to the program we inherited. The reason we say it is successful is that we have been able to encourage more than three times as many banks to take part in the program and thereby finance more exports.

Another reason is that we are maintaining constant and, I think, rather close communication with the banking community, which we expect will increase their interest in export financing.

Mr. PASSMAN. That sounds like a success story.

Mr. KEARNS. I think it is a success story. I think if there is a success story in this Government, this is it.

Mr. PASSMAN. You people usually testify as though you are afraid of what I am going to say next.

I am not trying to trip you. I am trying to find out how these programs are working.

Mr. KEARNS. I think if there is a success story any place in this Government, this is it. This program is working exactly as it is intended to. It puts banks in the export financing business and it keeps them in it. The very range of the rates they are charging is the best proof of how its works.

For example, in the case of a bank that comes to us for a discount loan against a 10½-percent loan, we know that they would not have the liquidity to make that loan if it had not been for our discount program, because they do not want to give us a 10½-percent loan unless it is absolutely necessary. They would have had to turn it down if it had not been for us. We also know that when their liquidity position improves they will take back that loan, which they have the privilege of doing under this program.

Mr. PASSMAN. They can also turn around and buy insurance against that loan, can't they?

Mr. KEARNS. They can, yes, and then they also pay us the insurance premium.

Mr. PASSMAN. In most instances they do buy insurance, do they not?

Mr. KEARNS. I would say it is about half and half. If the bank feels it is necessary to purchase insurance coverage. This is in keeping with the purpose of that program and we have no problem with that because we get the premiums on the insurance, and the guarantee. Our experience with the guarantee and insurance coverage has been extremely favorable.

Mr. PASSMAN. But if a foreign firm is willing to pay ten and a half or 12 percent for money, don't you have to look at the loan a lot longer than you would normally?

Mr. KEARNS. Not today. Those are not unusual terms today even for good firms. Money rates all over the world are high today.

Mr. PASSMAN. In the United States?

Mr. KEARNS. Yes, this is not too unusual in other countries.

Mr. PASSMAN. You go all the way from 6 to 12 percent interest, do you not?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. How does the man who has borrowed money at 12 percent feel about another individual from another country borrowing it at 6 percent.

Mr. KEARNS. The commercial bank rates on all of these transactions are negotiated, of course.

Mr. PASSMAN. I understand that, but I wonder if customer B would not say, "Well, you are making a loan at 6 percent to customer A to buy the same commodities. Why can't I have the same rate?"

Mr. KEARNS. We do not make the loan; the bank makes it.

Mr. PASSMAN. I know, but they know the Export-Import Bank is making the loan to the bank to finance these exports.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. You really cover the waterfront when you run from 6 to 12 percent interest to finance the same type of commodity, even through the same bank.

Mr. KEARNS. It usually is not the same type of commodity.

Mr. PASSMAN. It is still an American commodity, is it not?

Mr. KEARNS. I do not think there is any problem there. To explain, the customer that gets a 7 percent loan—it would not be 6 percent because it would have to be at least 1 percent above our discount rate—will get such a loan only if Eximbank believes that this rate is absolutely essential to meet foreign competition.

We check on that.

Mr. PASSMAN. I know there is bound to be some reason why you do all these things. I am only looking at the basic fact that you do have a wide variation in what you charge for money to finance American commodities.

Off the record.

(Discussion off the record.)

Mr. KEARNS. Mr. Chairman, in the first place, we are doing business in 114 countries, and there is quite a difference in the credit worthiness of the various buyers. We do business with all kinds of buyers, and in all kinds of commodities.

We do long-term, short-term, and medium-term business.

Mr. PASSMAN. You do not mean all kinds of commodities. You mean most kinds.

Mr. KEARNS. Most of them. You have different conditions for every transaction. You know from your banking experience that if a borrower has a balance in the bank equal to the amount he is borrowing, which occasionally happens, he gets a very favorable rate. He is entitled to it. All of these conditions apply.

We do not feel that this is any problem.

(Discussion off the record.)

Mr. PASSMAN. All these things you have to do in order to be able to finance our exports. I understand that. I brag on your bank occasionally but I think you are getting overambitious, but I cannot do anything about it.

You are talking to a friend.

Mr. KEARNS. I know.

GUARANTEE AND INSURANCE PROGRAM

Mr. PASSMAN. Of course, the program of guaranteeing dollar loans is not new in reality.

It is quite old, is it not?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. But there is a revised method.

Mr. KEARNS. We are using it more. That is the main difference.

Mr. PASSMAN. What has been your experience thus far concerning the guaranteeing of foreign bank dollar loans?

Mr. KEARNS. In the losses, you mean?

Mr. PASSMAN. No; I am talking about the expansion of this type of operation.

Mr. KEARNS. It is increasing the Bank's impact on exports tremendously; it is an absolute necessity if we are to meet the needs today. We simply do not have enough money to make the direct credits that are required. So our pattern today is when someone requires or requests a direct credit we will finance up to 50 percent with our own money, and the borrower must find the other 50 percent from the private market.

If necessary, we will guarantee the repayment of the privately financed portion but this support does not come from our cash resources. This activity will show up in the statistics as a very substantial increase in the guarantees, more in the next fiscal year than in this fiscal year because we are just getting started.

We feel that this is a way in which we can free money to support exports that would not otherwise go into export financing. For example, there are secondary funds, like pension trusts, insurance funds and so forth, that could not be used for export financing without our guarantee. We are getting greater access to that kind of money for the exporter. The statistics, as they unfold, will show much greater than normal growth in the guarantee volume.

Mr. PASSMAN. Let us come home for a while. If we should confiscate all the wealth in America and convert it into dollars, we still would not have sufficient funds to do all the things labeled desirable by the liberal politicians.

You must have limitations whether it is the Export-Import Bank or on our own domestic spending program. I can foresee your program growing to the point where it may not be the safe operation that we think of when we think of the Export-Import Bank.

LOAN PROGRAM DURING THE PAST 9 YEARS

I wonder if you would put in the record the total amount of direct loans for fiscal 1961 through fiscal 1969, and the total of guaranteed loans during that period, to let us see how rapidly you are growing.

(The information follows:)

DIRECT LOANS, GUARANTEES, AND INSURANCE AUTHORIZATIONS FROM FISCAL YEAR 1961 THROUGH FISCAL YEAR 1969

[In millions of dollars]

	Direct loans authorized (gross)	Guarantees and insurance authorized	Total
Fiscal year:			
1961	1,242	172	1,414
1962	1,093	768	1,861
1963	680	794	1,474
1964	778	964	1,742
1965	852	1,007	1,859
1966	1,149	993	2,142
1967	[1] 2,724	884	3,608
1968	[1] 2,526	1,008	3,534
1969	[1] 1,295	1,222	2,517
Total	12,339	7,812	20,151

[1] Includes loans authorized under the discount program as follows: fiscal year 1967, $72,000,000; fiscal year 1968, $203,000,000; fiscal year 1969, $185,000,000.

EFFECT ON BALANCE OF PAYMENTS

Mr. PASSMAN. We say the Bank helps the balance of payments situation. It does not help until the money comes back in, is that correct?

Mr. KEARNS. That is right.

Mr. PASSMAN. Just so you and I understand that. You are not helping the balance-of-payments situation by one dime until these loans are repaid in dollars, is that right?

Mr. KEARNS. May I make one exception to that?

Mr. PASSMAN. Yes, I would love to know what it would be.

Mr. KEARNS. In many of the loans we negotiate today, in place of our financing the entire amount we are requiring that a significant proportion of the transaction be financed outside the United States, which then becomes a 100-percent impact on balance of payments at the time the purchase is made. I could give you some specific cases. We have an aircraft that is sold for $8 million. We require that 50 percent of the money is from offshore sources. So $4 million would be paid into the airplane company in the United States before or at the time the delivery was made.

The other $4 million which we would finance would be paid back over 7 years.

Mr. PASSMAN. I am talking about the amount of money the Export-Import Bank puts up.

There may be secondary benefits, but the amount you put up does not actually benefit the balance-of-payments situation until those dollars start coming home.

Mr. KEARNS. But we do because in most cases the $4 million that comes from outside the United States is made available because we will guarantee it, and therefore it does have an immediate impact.

Mr. PASSMAN. Then you have a contingent liability, do you not?

Mr. KEARNS. That is correct.

Mr. PASSMAN. In addition to that, they arrange credit terms for the other 50 percent with the manufacturer of the airplanes.

Mr. KEARNS. No, sir.

Mr. PASSMAN. Your part of it has no effect on the balance of payments until the dollars are repaid.

It may be that they enter into an agreement with the manufacturer to place a million dollar order, and to pay half in cash and to borrow the other half from the Export-Import Bank. But as it applies to your operation only it does not benefit the balance-of-payments situation until these dollars start coming back, does it?

Mr. KEARNS. I am sorry, Mr. Chairman, I just cannot agree with you on that.

In the first place, if it were not for our 50-percent financing the sale would not be made at all. In the second place, if we guarantee the foreign-financed portion, this activity on our part also makes possible the whole export sale. Therefore, I just cannot agree with your statement. I am sorry.

Mr. PASSMAN. Let us say it is the best thing you ever heard of, but let us just discuss for a moment. You are involved, if it is a million dollar contract for only $500,000. Some other arrangement has been made to get the other half a million. You are involved only to the extent of half a million dollars.

As it applies to your operation, that half a million loan that you make available is not going to help the balance-of-payments situation until some of that half million dollars starts coming back into the Treasury.

Mr. KEARNS. No; but you have to keep this fact.

Mr. PASSMAN. You are talking about the second part. I am going to get to that. But as it applies to the first part, the half million that you make as a direct loan or as a guaranteed loan, that half million is not helping the balance of payments situation until the payments start coming in. Isn't that true?

Mr. KEARNS. That is true.

Mr. PASSMAN. That is all I have been trying to establish. Let us hope that you get to where you only put up 10 percent. I am trying to show that your operation is mixed up with the secondary benefits.

What percentage of your total operation is in that category?

POLICY REQUIREMENT FOR 50 PERCENT EXTERNAL SOURCES

Mr. KEARNS. It is increasing because it is now our general policy that 50 percent must come from sources other than the Export-Import Bank.

Mr. PASSMAN. For every loan that you make?

Mr. KEARNS. From now on, except in those cases where we have already entered into firm commitments. We vary some in cases where there are compelling competitive conditions. We may accept less than 50 percent.

Mr. PASSMAN. Or you may go up to 100 percent.

Mr. KEARNS. We do on some cases that were committed before we put the policy in effect.

Mr. PASSMAN. You have a very positive, sound policy now that you will only finance 50 percent of the cost of commodities?

Mr. KEARNS. Unless there is absolute evidence that the sale would be lost unless we go higher.

Mr. PASSMAN. If they can establish 95 percent of the sale would be lost then you would finance 95 percent?

Mr. KEARNS. If we think the export is that important, we would.

Mr. PASSMAN. Let us make this record correct.

All these qualifications does not make the record look as good as you would like it to look.

Mr. KEARNS. Our purpose is to help sell the American merchandise.

Mr. PASSMAN. I know that, Mr. President, but you are painting a picture that is a lot rosier than it is.

It may smell later on.

Mr. KEARNS. It is a very good picture.

Mr. PASSMAN. You do not have any sound policy. There is always a lot of "ifs." You are a fine barker. Let us not establish a record here that will look bad to us later on.

Mr. KEARNS. This will not look bad. This will be the best record you ever saw.

Mr. PASSMAN. You know very well that competition is extremely keen. We are losing our world markets on account of our generosity. We are having to sell a lot of our commodities with a subsidy. That you know, don't you?

Mr. KEARNS. Yes, sir; I do.

Mr. PASSMAN. That creates competition. We want this order so bad we are having to sell with a subsidy. That within itself means we are trying to beat competition.

Off the record.

(Discussion off the record.)

EXPORT EXPANSION FACILITY

Mr. PASSMAN. Mr. President, under the Export Expansion Facility, you mention that the Bank expects to assist, without granting concessionary terms, U.S. exports to obligors and countries which would not qualify under the Bank's normal credit criteria for repayment.

What has been your experience, if any, thus far, concerning repayments under this new program?

Mr. KEARNS. I do not have the exact figures in mind, but I will submit that for the record.

Mr. DUGAN. I have that.

We have not had to pay any claims under the Export Expansion Facility, Mr. Chairman.

Mr. PASSMAN. It is a relatively new program, is it not?

Mr. DUGAN. It started in fiscal 1969.

Mr. PASSMAN. How much credit have you extended under this program?

Mr. DUGAN. Direct credit of $10 million.

Mr. PASSMAN. How many countries?

Mr. DUGAN. I would have to count them. About 35 or 40, I guess.

Mr. PASSMAN. Those countries would also be eligible for the regular type export-import loans or do these fall in that special category?

Mr. KEARNS. It may be the country or the borrower himself.

Mr. PASSMAN. I use countries. A lot of loans are to nationals of the countries. It is not all government to government. When we speak of countries, we are also talking about the people in the countries you do business with.

It makes it easier to identify.

Mr. KEARNS. If in the case of a desirable export our Board of Directors believes that there is not the usual criteria of reasonable assurance of repayment but the sale seems to be important to the country, then we refer it for consideration under the Export Expansion Facility.

Mr. PASSMAN. All exports are important, are they not?

Mr. KEARNS. No; there are some that are not too important. If it looks like it is an area that will result in follow-on sales or where it has some significant impact in getting an exporter into the market, we believe it is important.

Mr. PASSMAN. If it were as good as you wanted it to be or as good as the old operation, you would not need this program.

Mr. KEARNS. If the credit worthiness was as good.

Mr. PASSMAN. That is right.

Let us put the facts in the record and we will always get along.

How many countries?

Mr. DUGAN. Forty-one, in total.

Mr. PASSMAN. Loans made in 41 countries?

Mr. DUGAN. That is both loans and guarantees.

Mr. PASSMAN. Separate them, if you will, the direct loans and the guarantees. You could not have had any bad experience as yet. If any had been bad, you would not know it yet.

Mr. KEARNS. That is correct.

STATUS OF EXPORT EXPANSION FACILITY PROGRAM

Mr. PASSMAN. Mr. President, what is the projected level of this program for fiscal 1971?

I believe you have a limitation of $500 million. We want to insert that table in the record that we mentioned a moment ago.

(The information follows:)

POSITION WITH RESPECT TO EXPORT EXPANSION FACILITY'S $500,000,000 LIMITATION

[In thousands of dollars]

	1969 actual	1970 estimate	1971 estimate
Statutory limitation	500,000	500,000	500,000
Charges against limitation:			
Loan program:			
Loan authorizations O/S beginning of fiscal year		25,200	174,478
Loans authorized during fiscal year (net)	25,200	150,000	100,000
Less repayments		722	1,043
Authorizations O/S end of fiscal year	25,200	174,478	273,435
Guarantee and insurance program:			
Total outstanding beginning of fiscal year		64,955	296,029
New authorizations during fiscal year	81,504	302,500	420,000
Less repayments, cancellations, and adjustments	16,549	71,426	176,634
Net authorizations	64,955	296,029	539,395
Less 75 percent credit	48,716	222,022	404,546
25 percent charge to limitation	16,239	74,007	134,849
Short-term activity O/S end of fiscal year (at 25 percent)	1,331	25,000	30,000
Guarantees and insurance—net charge to limitation	17,570	99,007	164,849
Total charges against limitation	42,770	273,485	438,284
Unused limitation	457,230	226,515	61,716

CREDITS EXTENDED TO DATE UNDER EXPORT EXPANSION FACILITY

Mr. PASSMAN. Please provide an updated table similar to what appeared on page 22 of last year's hearings.

(The information follows:)

EXPORT-IMPORT BANK OF THE UNITED STATES—EXPORT EXPANSION FACILITY—STATUS OF OUTSTANDING CREDITS AS OF DEC. 31, 1969

	Contract price	Interest rate insured (percent)	Term	Eximbank gross liability	Charged to EEF limitation
Loans:					
Afghanistan—Aircraft	$6,100,000	6	10 SA	$2,340,000	
Bolivia:					
Aircraft	6,534,000	6	16 SA	5,137,357	
Do	4,077,000	6	16 SA	3,005,188	
Guinea—Bus bodies	600,000	6	10 SA	450,000	
Kenya—Tire and tube plant	6,000,000	6	7 SA	3,600,000	
Korea:					
Nuclear power	53,550,000	6	(6)	47,250,000	
Oil fired powerplant	30,175,000	6	20 SA	26,625,000	
Spain—Copper mining	115,968	6	2 SA	86,800	
Yugoslavia—Aircraft	26,000,000	6	8 SA	211,212,500	
Do	10,300,000	6	8 SA	[2] 4,441,875	
Subtotal	143,451,968			[1] 104,148,720	$104,148,720
Medium Term Guarantees:					
Antigua:					
Diesel generators	2,600,000	6	14 SA	2,192,000	
Desalinization equipment	2,225,000	6	15 SA	[2] 2,000,000	
Argentina—Euclid trucks	175,000	6	8 SA	133,900	
Dominican Republic TV equipment	430,000	6	20 Qr	240,800	
Honduras—9 Brockway trucks	180,600	6	6 SA	113,400	
Indonesia—Copper mining	23,600,000	6	17 SA	[2] 23,600,000	
Kenya—Tire and tube plant	6,000,000	8½	6 SA	2,400,000	
Korea:					
Plywood plant equipment	715,950	6	10 SA	534,000	
Nuclear powerplant	14,647,500	6	5 SA	14,647,500	
Oil fired powerplant	5,325,000	6	4 SA	5,325,000	
Kuwait:					
Consumer appliances	694,500	6	4 Qr	500,000	
Cars and trucks	3,270,000	6	6 Qr	2,354,400	
Lebanon—Aircraft	43,000,000	7¼	40 Qr	34,953,563	
Nigeria—Textile machinery	349,355	6	10 SA	207,900	
Taiwan—Dump trucks	1,420,000	6	5 SA	1,150,200	
Do	2,738,710	6	5 SA	2,218,400	
Subtotal	107,371,015			[3] 92,571,063	23,142,765
Medium-term insurance:					
Argentina:					
Tractors	400,000	6	8 SA	208,100	
Do	271,115	6	8 SA	[2] 238,100	
Do	50,000	6	6 SA	42,300	
Construction equipment	289,400	6	8 SA	251,300	
2-wheel loaders	62,000	6	7 SA	53,200	
Motor graders	144,270	6	7 SA	[2] 123,200	
Tractors, graders	178,000	6	7 SA	150,800	
Motor graders	204,000	6	6 SA	172,500	
2-wheel loaders	41,650	6	6 SA	[2] 34,900	
Road construction equipment	61,424	6	7 SA	43,886	
Do	481,000	6	8 SA	417,700	
Do	74,000	6	8 SA	64,300	
Do	113,000	6	7 SA	95,800	
Traxcavator	29,000	6	6 SA	24,600	
Tractor, wheel loader	265,100	6	8 SA	227,600	
Graders, wheel loader	169,000	6	8 SA	146,800	
Motor scrapers	176,495	6	8 SA	151,000	
Soil stabilizer and accessories	56,925	6	7 SA	48,800	
Tractors	208,408	6	8 SA	[2] 172,900	
Tractors, graders	199,580	6	7 SA	173,700	
Do	159,600	6	7 SA	135,300	
Road construction equipment	236,000	6	8 SA	202,300	
Traxcavator	30,172	6	6 SA	[2] 25,300	
Do	47,885	6	6 SA	40,100	
Do	52,150	6	7 SA	44,200	
Motor grader	186,000	6	7 SA	163,700	
Do	25,310	6	4 SA	20,600	
Do	54,000	6	6 SA	45,700	

See footnotes at end of table.

EXPORT-IMPORT BANK OF THE UNITED STATES—EXPORT EXPANSION FACILITY—STATUS OF OUTSTANDING CREDITS AS OF DEC. 31, 1969—Continued

	Contract price	Interest rate insured (percent)	Term	Eximbank gross liability	Charged to EEF limitation
Medium-term insurance—Continued					
Argentina—Continued					
Traxcavtor	$31,975	6	6 SA	$26,800	
Do	31,545	6	6 SA	22,000	
Motor grader	30,485	6	6 SA	25,500	
Wheel loaders and traxcavators	143,000	6	8 SA	122,600	
Wheel loaders	20,100	6	4 SA	15,100	
Wheel loader and motor grader	69,000	6	7 SA	59,200	
Tractor	72,305	6	7 SA	61,300	
Traxcavator	31,020	6	6 SA	25,900	
Road construction equipment	1,238,919	6	8 SA	1,075,800	
Earth moving equipment	150,000	6	6 SA	119,400	
Tractor, motor grader	119,000	6	8 SA	103,400	
Wheel loaders, motor graders and tractors	672,500	6	6 SA	562,200	
Australia—Textile machinery	165,140	6	12 Qr	119,000	
Canada—Road roller	65,000	6	8 Qr	52,700	
Chile—Textile machinery	510,000	6	10 SA	390,200	
Dominican Republic—Tractors	120,000	6	8 Qr	67,200	
France:					
Telecommunications equipment	3,107,200	6	20 Qr	2,427,700	
Telecommunications equipment parts	365,000	6	9 SA	295,700	
Guatemala:					
Chip Spreader	21,025	6	5 SA	14,200	
Road construction equipment	449,480	6	6 SA	181,800	
Road roller	100,845	6	10 SA	68,100	
Guyana—Airplane	41,746	6	12 Qr	28,400	
Iran:					
Auto components	11,000,000	6	4 SA	[2] 8,395,200	
Jeep vehicles	7,000,000	6	3 SA	[2] 5,418,000	
Agricultural equipment	443,370	6	9 SA	[2] 276,500	
Tractors	470,000	6	20 Qr	188,000	
Italy:					
Aircraft	222,315	6	8 Qr	211,200	
Earthmoving machines	1,750,000	6	6 Qr	1,326,700	
Korea—Vehicles	6,642,000	6	5 SA	1,667,200	
Mexico:					
Metal working machine tools	68,442	6	12 Qr	49,300	
Spinning frames	51,498	6	16 Qr	41,800	
Aircraft	30,000	6	6 SA	[2] 21,600	
Nigeria:					
Machinery equipment	1,875,000	6	1 SA	1,081,500	
Spinning section for yarn	1,500,000	6	10 SA	1,066,600	
Pakistan—Textile machinery	749,000	6	15 SA	684,900	
Panama—Storage facility	130,000	6	10 SA	93,600	
S. Africa:					
Farm, construction equipment	150,000	6	4 SA	[2] 130,700	
Knocked down pianos	250,000	6	36 M	200,000	
Switzerland—Car wash equipment	130,277	6	12 Qr	93,800	
Trucial Oman—Diesel generator sets	50,000	6	4 Qr	23,400	
Trucial States—Air conditioners	62,500	6	2 SA	45,000	
Venezuela:					
Aircraft	333,400	6	8 Qr	270,000	
Textile equipment	206,500	6	12 Qr	[2] 148,700	
Phonographs	100,000	6	18 M	81,000	
Hoist and equipment	302,000	6	60 M	[2] 217,500	
Tractors	62,500	6	4 SA	45,000	
Vacuum cleaners	33,040	6	4 SA	23,800	
Subtotal	45,432,611			[3] 31,183,386	$7,795,847
Short-term insurance:					
Australia—Construction equipment	[4] 1,500,000		180 days	1,500,000	
Brazil—Fertilizer	[4] 125,000		do	125,000	
Colombia—Airconditioning units	[4] 75,000		365 days	75,000	
Costa Rica—Fivers and raw materials	[4] 115,000		180 days	115,000	
Dominican Republic:					
Auto parts	[4] 15,000		do	15,000	
Poultry concentrates	[4] 10,000		90 days	10,000	
Ecuador:					
Cars and trucks	[4] 150,000		180 days	150,000	
Do	[4] 150,000		do	150,000	
El Salvador:					
Automotive parts	[4] 2,000		do	2,000	
Broadcast transmitter	[4] 12,630		do	12,630	
England—Crude sulphur	[4] 700,000		do	700,000	
France:					
Material test systems	[4] 60,000		do	60,000	
Construction equipment	[4] 750,000		do	750,000	

See footnotes at end of table.

EXPORT-IMPORT BANK OF THE UNITED STATES—EXPORT EXPANSION FACILITY—STATUS OF OUTSTANDING CREDITS AS OF DEC. 31, 1969—Continued

	Contract price	Interest rate insured (percent)	Term	Eximbank gross liability	Charged to EEF limitation
Short-term insurance—Continued					
Guatemala—poultry	[4] $50,000		180 days	$50,000	
Iceland—Paperboard and gummed tape	[4] 125,000		do	125,000	
Indonesia:					
Kraft paper	[4] 250,000		do	250,000	
Textiles	[4] 75,000		do	75,000	
Iran—Steel sheets	[4] 1,400,000		do	1,400,000	
Italy—Construction equipment	[4] 1,200,000		do	1,200,000	
Jamaica—Air conditioning and refrigerating units.	[4] 50,000		do	50,000	
Mexico:					
Cattle hides	[4] 10,000		do	10,000	
Auto parts	7,000		do	7,000	
Netherlands:					
Material system	60,000		do	60,000	
Displays	10,000		90 days	10,000	
Nigeria:					
Electrical equipment	200,000		180 days	[2] 200,000	
Tobacco	550,000		do	[2] 550,000	
Trenchers, accessories	1,750,000		do	[2] 1,750,000	
Building materials	230,000		do	230,000	
Paper pulp	150,000		do	150,000	
Road building equipment	220,000		90 days	220,000	
Broadcasting equipment	49,400		L/C	49,400	
Panama—Trucks, automobile	225,000		180 days	225,000	
Peru—Auto parts	6,000		do	6,000	
Trinidad:					
Textile piece goods	25,000		120 days	25,000	
Piece goods	10,000		180 days	10,000	
Venezuela:					
Brass plumbing fixture	15,000		do	15,000	
Lamps	75,000		do	75,000	
Plumbing fixtures	12,500		do	12,500	
Zambia—Air-conditioning equipment	[4] 100,000		do	100,000	
Business reported under FCIA's $20 million discretionary:					
Authority—Various	14,373,404			14,373,404	
Subtotal	24,892,934			[7] 24,892,934	$6,223,234
Grand total	321,148,528			252,796,103	141,310,566

[1] Net of participations totaling $1,472,276 and repayments of $200,353.
[2] Previous authorization was increased.
[3] Net of cancellations and nonrevolving repayments totaling $22,371,537.
[4] Interest rate not applicable.
[5] Net of cancellations and nonrevolving repayments totaling $2,254,414.
[6] $38,850,000 for equipment-service portion repayable in 25 SA and $8,400,000 for uranium fuel repayment in 8 SA.
[7] Net of cancellations totaling $339,000.

LOANS TO DEVELOPED COUNTRIES FOR PURCHASE OF DEFENSE ARTICLES

Mr. PASSMAN. Place a list in the record showing the details of any transactions with the developed countries extending credits to support the export of defense articles for last year.

(The information follows:)

LOANS AUTHORIZED TO DEVELOPED COUNTRIES FOR PURCHASE OF DEFENSE ARTICLES AND SERVICES AUTHORIZED FISCAL YEAR 1969

Country	Loan No.	Date authorized	Amount authorized	Interest rate (percent)	Repayment terms (S.A.)	Expiry date
United Kingdom	2,564	Sept. 5, 1968	$75,000,000	6	14	June 30, 1971
United Kingdom	2,645	June 26, 1969	100,000,000	6	14	Mar. 31, 1972
Australia	2,644	do	50,000,000	4¾	14	June 30, 1970

CREDITS TO YUGOSLAVIA

Mr. PASSMAN. I observe that we are still extending credit to Yugoslavia under a previous Presidential determination, is that correct?

Mr. KEARNS. That is right.

Mr. PASSMAN. Has their record of repayment been made according to terms?

Mr. KEARNS. We have had no requests for rescheduling or deferments on the Yugoslav transactions, so I believe it has been.

(Discussion off the record.)

Mr. PASSMAN. Their record has been good.

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. They are not delinquent?

Mr. KEARNS. That is right.

Mr. PASSMAN. They have kept up to date on the contract, as to interest and principal?

Mr. KEARNS. Yes. I could make the same comment that you made on the export expansion program, that is, in the case of loans we have not been at it long enough to know.

Mr. PASSMAN. I thought you had been extending credits for about 7 years now?

Mr. KEARNS. The magnitude has grown.

Mr. PASSMAN. You have to start with little things, which, of course, grow into big things. If it is related to aid we expect it. I think the first determination was made about 6 or 7 years ago, am I correct?

Mr. KEARNS. Six years ago, in February 1964.

Mr. PASSMAN. What are the total credits outstanding now to Yugoslavia?

Mr. KEARNS. I do not have the exact figure in mind, Mr. Chairman. Do you have that?

Mr. DUGAN. Yes, sir.

Mr. SAUER. I can give it to you as of June 30, 1969.

Mr. DUGAN. I have it here. The outstanding balance of loans to Yugoslavia at November 30, 1969, was $61 million.

Mr. PASSMAN. Thank you, sir.

NEW OR SUBSTANTIALLY REVISED PROGRAMS OF THE BANK

Mr. President, you indicate that the Bank has developed several new programs designed to increase U.S. exports. Would you please list these new programs and provide a brief summary of each for the record?

Mr. KEARNS. Yes, sir.

(The information follows:)

EXPORT–IMPORT BANK OF THE UNITED STATES—NEW OR SUBSTANTIALLY REVISED PROGRAMS ADOPTED SINCE MAY 1, 1969

Extended use of guarantee authority.—Application of the financial guarantee authority of the Eximbank has been extended, primarily to attract secondary sources of finance for exports. This program is expected to be administered primarily through commercial banks.

Use of foreign source financing.—A program has been devised to solicit and negotiate with non-U.S. institutions to provide sources of funds to pay for U.S. exports. In the execution of this program the executives of the Bank have made extensive personal exploration and a permanent representative of the

Bank has been established in Europe. The results to date have been most encouraging.

Joint/participation financing.—A program of joint/participation financing has been undertaken to achieve the greatest leverage from the actual cash resources of the Bank. This program is based upon the experience in financing aircraft sales over the past two years. Under this program, when Eximbank is requested to provide direct credits, it will require participation to a major degree by private financial institutions.

Relending credit program.—The practice of extending relending credits to certain overseas institutions has been organized into a comprehensive export promotion program. Selected overseas institutions will be extended limited lines of credit in return for active promotion of the sales of certain categories of U.S. products in specific markets. Past experience has revealed that this seeding effect can produce sales of products which otherwise would not have been possible. Continuing financing is expected to be provided from other sources.

Revised discount program.—The commercial bank export loan program (discount program) initiated in 1966 has been revised and simplified. The current program actually has increased the number of banks which will finance exports and will significantly add to the private resources available for continuing export financing.

Nuclear power support.—A policy has been adopted to assist in the sale of U.S.-produced nuclear power production facilities. The program includes assurance of the continued availability of financing for fuel charges, of key importance in maintaining the competitive advantage of American exporters.

Pre-development support.—To support the country's engineering, planning and construction industries as well as to aid potential sales of large capital projects, a program has been approved for financing from the Export Expansion Facility to provide financial backing for U.S. participants in early feasibility and planning studies.

Equipment insurance.—To further assist engineering and construction exporters, a program has been adopted wherein the Eximbank will provide insurance on heavy and valuable equipment transported abroad for performance of contracts.

Local cost financing.—Local cost financing has been one of the most troublesome demands upon U.S. exporters. To assist American firms in achieving large and important contracts, a program has now been approved that will help to provide local cost financing from various sources without a direct outflow of dollars from the United States.

Service to commercial banks.—A series of programs has been adopted to assist and to work with private commercial banks. These include a free credit information service, a professional training program for young executives, and special assistance in marshalling consortium financing, when needed.

Improved export insurance.—A special deductible policy has been developed and approved by the Eximbank and the Foreign Credit Insurance Association (FCIA) to reduce the cost and increase the usefulness of export insurance for major users.

Trade promotion.—A program of trade promotion has been undertaken in cooperation with the Department of Commerce for planning and active participation in trade fairs and exhibits in Mexico City, Bangkok, Tel Aviv, Madrid, and Osaka. This program will be continued and expanded.

Private export finance corporation (PEFCO).—Agreement has been developed with the Bankers Association for Foreign Trade (BAFT) to produce a joint agreement creating PEFCO, a massive consortium arrangement to finance major exports.

Agricultural exports.—Special attention has been given to agricultural exports, with increasing effectiveness.

Favorable interest rate.—After a thorough examination and analysis, the Export-Import Bank has continued its direct credit interest rate at 6%.

Comprehensive jet aircraft financing.—A comprehensive policy and program to participate effectively in jet aircraft financing has been deveolped.

Seminar program.—A commercial bank seminar program, heretofore conducted on an *ad hoc* basis, has now been revised and programed into a unified, planned arrangement to include regional meetings, state seminar programs, and commercial-bank-sponsored programs in various cities.

Special industry assistance.—A series of special industry programs has been developed to explore in depth the financing needs and to develop specific programs of usefulness. These include: The National Cotton Council of America, the Electronic Industries Association, Machine Tool Builders Association, National Printing Equipment Association, Aerospace Industries Association, and others.

Inter-Agency Cooperation.—Special cooperative programs have been developed with international institutions including: the International Bank for Reconstruction and Development, the International Monetary Fund, the International Finance Corporation, the privately-sponsored ADELA investment group, and similar organizations.

Financing assistance office.—An export financing assistance office has been established to cooperate with banks, industries, or others who find difficulty in arranging satisfactory financing. The purpose is to combine the various resources and facilities to accomplish the major purpose.

Industry discussions.—A meeting has been scheduled with representatives of the major U.S. industries involved in exports to exchange experience and to stimulate interest in expansion of their export activities.

Advance commitment procedure.—An effective advance commitment procedure has been adopted, including guidelines for borrowers, sellers and internal operational direction. It is intended that this development will significantly speed up case handling at all levels.

Mr. PASSMAN. It appears that in some of these new programs we are really stretching the banking function to the extreme. You are going to provide political risk guarantees for U.S. equipment, credit reference service to commercial bankers, export finance counseling service, and a personnel training program, are you not?

Mr. KEARNS. Yes, sir. If I might remark——

Mr. PASSMAN. Those are rather strange banking functions.

Mr. KEARNS. If I might remark, as I read the legislation authorizing the Bank, our purpose is to do those things that will assist in the export of U.S. goods and services. After serious and thorough investigation, we determined that these programs do assist in the export of U.S. goods and services.

Mr. PASSMAN. Don't develop a bad operation. This has been a solid financial institution for a long time. You do not have to be smart to know that. You people are kind of breaking out of your britches. This is pretty far-fetched to me, because if you start financing personal services and all that, God will only know what you come up with next. It is your operation and I do not run the show, but it looks to me as if you are going a little far afield if you call this the financing of commodities.

Mr. KEARNS. Mr. Chairman, may I say that the only thing we finance are those goods or services that are paid in dollars into the United States. If it is a service paid for in dollars into the United States, it is as much an export as is a hard item. This is the test as to whether or not we will support it.

Mr. PASSMAN. It is new, is it not?

Mr. KEARNS. The emphasis is, yes.

Mr. PASSMAN. That is what is worrying us. Heretofore you have dealt with hard commodities—exports. The first thing we know you will be financing courses for attorneys, bankers, and statisticians. Even if they put up 50 percent, it may turn out that your 50 percent share will be charged off.

Mr. KEARNS. Mr. Chairman, if I may remark, I find that I must defend this position.

Mr. PASSMAN. It is hard to defend, but I think you ought to try.

Mr. KEARNS. I think it is defensible. It is very important for American contractors to make an effort to get some of the large contracting jobs because they carry with them very significant exports of hard goods. Take, for example, building a refinery or an airport, and consider all the equipment that goes into such a project. It is entirely proper that we should encourage the American participant to go into those projects and get the overall sale.

Mr. PASSMAN. Why didn't the Bank do this before?

Mr. KEARNS. It was thought of before.

Mr. PASSMAN. But they decided not to do it, though.

Mr. KEARNS. No; that is not the case. It is a matter of emphasis.

Mr. PASSMAN. What do you mean "a matter of emphasis"? I do not quite get that.

Mr. KEARNS. We believe there is more export business by doing what we are today than there would be if we did not do it.

Mr. PASSMAN. I never heard it described in the terms you have when you relate emphasis to what you are doing.

Are you going to be reimbursed for the services you provide the commercial banks and exporters?

Mr. KEARNS. No, sir; but we will get them to finance more exports.

Mr. PASSMAN. What do you anticipate your losses may be if this does not materialize into a sale?

Mr. KEARNS. There are no losses involved in this. We will underwrite our portion through an agreement with a responsible entity in the country involved. The service is handled in the normal course of our business. There is minimum risk involved and very little expenditure. We believe the program is very useful. It makes it attractive for more U.S. companies to go abroad and participate in construction projects. They will be paid in dollars and usually very significant sales of U.S. products also follows.

Mr. PASSMAN. You are kind of stealing the thunder of these AID people; are you not?

Mr. KEARNS. No, sir.

Mr. PASSMAN. I do not like to see anything that will be a reflection on the Export-Import Bank. You people must have been associated with some of the give-away boys.

Mr. KEARNS. No, sir.

Mr. PASSMAN. Break up those board meetings quickly and get away from them.

Mr. KEARNS. We have a very "hard" purpose in everything we do, and that is to facilitate export sales and get paid for them. That is our entire purpose, and everything we do is directed toward that purpose.

Mr. PASSMAN. Keep it under control. Even this new program can get too big; can't it?

Mr. KEARNS. I see no possibility of that happening in the near future.

CONCENTRATION IN EQUIPMENT AND SERVICE AUTHORIZATIONS

Mr. PASSMAN. Almost all of the $600 million increase for fiscal year 1971 in net loan authorizations, is concentrated in equipment and service authorizations, while commodity authorizations remain constant.

Will you please explain this concentration in the equipment and services area with a statement for the record.

(The information follows:)

EQUIPMENT AND SERVICES LOANS

The category "equipment and services" loans includes all activity under Eximbank's credit programs except the $75 million credit authorized in support of cotton exports to Japan, the activity under the Bank's discount loan program, and emergency foreign trade authorizations. Thus, the increases in the equipment and services category reflect the increases in credit authorizations resulting from Eximbank's new and revised programs.

The estimated level of authorizations under the discount loan program has increased from a net of $600 million in fiscal year 1970 to $700 million in fiscal year 1971. The level budgeted for special foreign trade authorizations has not increased since the thrust of the Bank's activities is being directed away from such emergency authorizations for nations finding themselves in temporary exchange difficulty, and into the new and expanded programs to promote U.S. exports.

It should be noted that Eximbank's support of agricultural products is not limited to the $75 million commodity credit referred to above. These exports are also supported under the discount loan program, the guarantee and insurance programs, and the relending program.

Therefore, the expansion in the Bank's credit programs is reflected in the increased authorizations budgeted for the category of equipment and services loans.

INTEREST AND NONADMINISTRATIVE EXPENSES

Mr. PASSMAN. There is also a $38 million increase in interest and nonadministrative expenses.

Would you explain this increase and describe this expense activity?

Mr. KEARNS. We will give you the complete breakdown for the record, but essentially, as I am sure you are aware, it is the cost of interest these days. This is one of the problems that everyone in government has today.

(The information follows:)

The increase in the interest and nonadministrative category from fiscal year 1970 to fiscal year 1971 is due to several factors: (1) Outstanding borrowings are expected to increase by $245 million during fiscal year 1971 due to the increases in the Bank's credit programs; (2) the high level of interest rates; and (3) as scheduled repayments of borrowings of prior years come due, the refinancing of these borrowings must be done at a highest interest rate, thus increasing the Bank's average interest expense rate.

The nonadministrative expense category includes such items as fees or dues to international organizations of credit institutions engaged in financing foreign trade, the costs of the annual audit of the Bank's financial statements by the General Accounting Office, consultants' fees, expenses (other than internal expenses of the Bank) incurred in connection with the issuance and servicing of guarantees, insurance, and reinsurance, and other miscellaneous expenses. The total nonadministrative expenses during fiscal year 1969 were $59,000.

Mr. PASSMAN. In other words, it is the interest you have to pay?

Mr. KEARNS. Yes, that is the principal expense.

COST OF BORROWING FUNDS FROM U.S. TREASURY

Mr. PASSMAN. Do you have a concessionary interest rate arrangement with the Treasury?

Mr. KEARNS. Not for our new borrowing.

Mr. PASSMAN. Do you have to pay the prevailing rate?

Mr. KEARNS. We pay whatever their rate is at the time. It fluctuates.

Mr. DUGAN. The rate this month is 7¾ percent.

Mr. KEARNS. That is quite different than what the rates were sometime ago. It fluctuates by the day. We try to keep it down. As a matter of fact, for a bank that does as much business as we do, we make the fullest use of any money that we borrow. As a banker, you would recognize how we roll-over our balances to achieve the fullest possible effect.

Mr. PASSMAN. That is being very complimentary. My experience as a banker has been borrowing money and trying to figure out some way to pay it back.

I have read in two or three instances, and in one case an article by an accredited economist, that without the restraints imposed by the Nixon administration, inflation would now be running at about 12 percent rather than about 5 percent. I understand that there are ample statistics to support these findings. Do you concur?

Mr. KEARNS. I do not have any statistics, but I would guess that it would be considerably higher.

Mr. PASSMAN. I think we should establish for those people who are critical today about inflation running at about 5 percent, using round figures, that if the President had not instituted these restraints that in all probability it would have been running in excess of 12 percent. There is not any question about it. He has slowed down the spiral of inflation that was eating away at the purchasing power of the dollar.

Do you agree with me?

Mr. KEARNS. Absolutely.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

EXPANSION OF BANK'S LENDING ACTIVITY

Mr. PASSMAN. Mr. President, on page 2 of the justifications it is shown that new program activity has jumped from $1,345,500,000 in fiscal 1969 to $4,075,400,000 in fiscal 1971. This is an increase of $2,730,000,000, or more than triple the fiscal 1969 level. Again, most of this increase is concentrated in the loan authorization area. How is this tremendous increase being financed?

Mr. KEARNS. It will be financed from the sale of our assets and from borrowings.

Mr. PASSMAN. I am not being critical, but don't you think you are moving too fast?

Mr. KEARNS. No, sir. We are not moving fast enough to meet the actual needs of the times.

Mr. PASSMAN. Be satisfied with what you are doing, because you may be moving too fast.

Mr. KEARNS. We are only trying to meet the needs. We cannot be satisfied unless we are performing our assignment adequately.

Mr. PASSMAN. Didn't you hear me earlier and you agreed, that if you could confiscate all the wealth in America and convert it into dollars you still would not have sufficient funds to do all the things labeled desirable by the liberal politician. The Export-Import Bank cannot meet all the so-called needs.

Mr. KEARNS. We must meet the needs of U.S. exports in order to keep the dollar strong.

(Discussion off the record.)

Mr. PASSMAN. What is the interest rate you charge on credits that you are now extending, and what interest rate do you pay the U.S. Treasury for the money you borrow from them?

Mr. KEARNS. Our direct lending rate is 6 percent. We pay the Treasury from 7⅛ to 8½ percent depending upon the market at the time of borrowing. Since we lend at 6 percent, the difference is paid from our earnings, with no request for appropriations support.

REFINANCED LOANS

Mr. PASSMAN. If you would, place in the record the number of loans and the aggregate you have refinanced during the past fiscal year.

Mr. KEARNS. That we have refinanced?

Mr. PASSMAN. Yes.

Mr. KEARNS. We have refinanced none in fiscal year 1970.

Mr. PASSMAN. You mean you have not updated any loans during this past year?

Mr. KEARNS. In fiscal 1969 we rescheduled some as shown in the schedule submitted with my statement. There have been none to date in fiscal year 1970.

Mr. PASSMAN. That is a remarkable record.

What is the total outstanding of your direct loans?

Mr. KEARNS. It is about five and a half billion.

Mr. PASSMAN. What part of the five and a half billion dollars would be in delinquent status?

Mr. KEARNS. About 3.2 percent.

Mr. PASSMAN. Is that an improvement over prior years?

Mr. KEARNS. About the same. When you get that low a percentage, as compared to the total volume, it takes a lot of volume to make a change in the percentage points.

Mr. PASSMAN. You have to look at the aggregate to know what it is dollarwise.

Mr. KEARNS. Yes, sir.

UNUSED LENDING AUTHORITY

Mr. PASSMAN. It would appear that not much of your statutory authority of $13,500 million will be remaining at the end of fiscal 1971; is that correct?

Mr. KEARNS. That is correct.

Mr. PASSMAN. Your estimates indicate that only $357 million will be unused as of June 30, 1971; is that correct?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. Do you have a request before the Congress to increase your lending authority?

Mr. KEARNS. No, sir; but I have sent a communication to the Bureau of the Budget requesting permission to present legislation.

UNUSED GUARANTEE AND INSURANCE AUTHORITY

Mr. PASSMAN. I would assume that the limitation of three and a half billion dollars on gross guarantees and insurance outstanding on a

25 percent basis will have an unused balance of $174,900,000 at the end of fiscal 1971; is that correct?

Mr. KEARNS. That is correct, Mr. Chairman.

NECESSITY FOR INCREASE IN LENDING AUTHORITY

Mr. PASSMAN. To be able to expand your operations beyond June 30, 1971, you will have to get an increase in your spending limit authority, is that right?

Mr. KEARNS. That is correct, sir.

Mr. PASSMAN. Would you furnish such information to the committee for the charges against your lending authority during calendar year 1969?

Mr. KEARNS. Yes, sir.

(The information follows:)

Export-Import Bank of the United States—Position With Respect to $13.5 Billion Lending, Guarantee, and Insurance Authority—per the Export-Import Bank Act of 1945

[In millions of dollars]

	Dec. 31, 1969, actual
Statutory authority	$13,500.0
Charges against authority:	
Outstanding loans receivable	5,658.0
Loans sold with recourse [1]	305.7
Undisbursed authorizations, loan agreements signed	1,896.7
Undisbursed authorizations, loan agreements unsigned	638.3
Subtotal	8,498.7
Guarantee and insurance programs: [2]	
Short-term:	
Commitment to Foreign Credit Insurance Association	181.3
Medium-term:	
Foreign Credit Insurance Association	68.9
Export-Import Bank of the United States	151.3
On-shore insurance	2.5
Subtotal	404.0
Total charges against authority	8,902.7
Unused authority	$4,597.3

[1] In general, charged at 100 percent.
[2] In general, charged fractionally at 25 percent.

CONTRIBUTION OF BANK TO U.S. BALANCE OF PAYMENTS

Mr. PASSMAN. What is your estimate of the Export-Import Bank's anticipated contribution to the U.S. balance of payments for fiscal 1971?

Mr. KEARNS. Do you have the estimate on that, Mr. Dugan?

Mr. PASSMAN. Let me put it this way: What do you anticipate as to the amount of repayment of loans in fiscal 1971 that will be paid the Export-Import Bank?

Mr. DUGAN. We are estimating about $1.4 billion of principal and interest. Our total budget receipts including asset sales are estimated to be almost $2 billion.

AUTHORITY TO SPEND AGENCY DEBT RECEIPTS

Mr. PASSMAN. In the budget table there is an item entitled "authority to spend agency debt receipts," with a figure listed for fiscal 1971 of $561,063,000. Would you please explain this item and tell us why there is no similar item listed for fiscal years 1969 and 1970?

Mr. KEARNS. Mr. Dugan, will you answer this question?

Mr. DUGAN. As I understand that item, Mr. Chairman, it represents the amount of borrowing authority that we would need if every one of our obligations were to come due within fiscal 1971 or by the end of fiscal 1971. There was no need in prior years, because of the adequate unobligated opening balances.

Mr. PASSMAN. How are you going to spend a debt receipt?

Mr. DUGAN. That is the Bureau of the Budget's terminology.

Mr. PASSMAN. Is this put in the budget so the committee couldn't understand it? Do you understand it?

Mr. DUGAN. No, sir, at least not the terminology.

Mr. PASSMAN. Do you understand it, Mr. President?

Mr. KEARNS. No, sir.

Mr. PASSMAN. Well, if nobody understands it let's get over this right now and get on to something else.

Mr. KEARNS. Would you like to have us get a definition of what it is and submit it for the record, Mr. Chairman?

Mr. PASSMAN. Yes, either do that or take it out of the record. If you can figure out how you can spend a debt, let me know and I will call another session, because I want to find out how that one works.

(The information follows:)

EXPLANATION OF BUDGET AUTHORITY

"Authority to spend agency debt receipts" is the terminology inserted by the Bureau of the Budget for what we would otherwise have called "budget authority," and refers to the Bank's ability to fund its programs by borrowing money from the private sector and then using the proceeds of such borrowing for said purpose.

"Budget authority" for any year represents the authority, becoming available during that year, to incur obligations, and is classified as either definite or indefinite, permanent or current. Eximbank's budget authority is indefinite and permanent. Indefinite authority is not stated as a specific sum when the authority is granted, but is determinable only at some future date. Permanent authority will become available without further action by Congress. Therefore, the figure of $561,063,000 representes the Bank's estimate of additional budget authority which would be needed to cover fiscal year 1971 obligations. However, the exact amount, if any, will not be determinable until the end of fiscal year 1971. When the amount actually needed is determined, it will become available to the Bank without further action by Congress because of the nature and content of Eximbank's legislation.

"Authority to spend agency debt receipts" means that the Bank may need to issue to the public its own debt instruments and spend the proceeds of this debt to liquidate its obligations.

If at the end of fiscal year 1971 Eximbank should have to (1) pay guarantee and insurance claims equal to its 25 percent reserve, (2) disburse all of the undisbursed balances of its loan agreements, and (3) repurchase all of its loans sold with recourse, the Bank would then need $561,063,000 additional funds above the amount it would be able to acquire from authorized Treasury borrowings plus the obligated balances of its authority to spend agency debt receipts.

SALES OF PARTICIPATION CERTIFICATES

Mr. PASSMAN. Mr. President, would you provide a table showing the total amount of participation sales outstanding, and the amount of sales made in each of the last several years?

Mr. KEARNS. Yes, sir; I would be glad to.

(The information follows:)

SALES OF PARTICIPATION IN LOANS FROM JULY 1, 1966, THROUGH DEC. 31, 1969

[In thousands of dollars]

	Loans sold	Interest rate on loans	Contingent liability for loans sold with recourse outstanding
Fiscal year 1967	152,775.4	4.750–5.750	151,708.7
Fiscal year 1968	90,417.6	4.875–6.875	162,324.6
Fiscal year 1969	378,149.6	4.750–6.875	491,376.8
Fiscal year 1970 (1st 6 months)	210,291.4	4.750–6.000	321,921.8

Mr. PASSMAN. What is the interest rate on these certificates? Do you want to put that in the record?

Mr. KEARNS. Yes, sir.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. You are asking for a limitation on administrative expenses for fiscal 1971 of $6,613,000. That would be an increase of $1,065,000. Is that correct?

Mr. KEARNS. Yes, sir; over our current fiscal year 1970 limitation.

Mr. PASSMAN. Percentagewise, that is about in keeping with the percentage increase in your lending activity, is it not?

Mr. KEARNS. No, the increase in administrative expense is proportionately less than the increase in activity, Mr. Chairman.

Mr. PASSMAN. It is less?

Mr. KEARNS. Yes. As a matter of fact, I did some computations on the percentage of administrative expenses as related to Eximbank's impact on exports. In 1969 it was eighteen one-hundredths of 1 percent. In 1970 we project it to be eleven one-hundredths of 1 percent, and in 1971 we expect it to be nine one-hundredths of 1 percent. So it is about half the rate of expense to production.

NET PROFITS OF THE BANK

Mr. PASSMAN. What do you anticipate the net profits of the Bank's operation will be?

Mr. KEARNS. About $120 million.

Mr. PASSMAN. This $6,613,000 will be financed out of that profit?

Mr. KEARNS. That is our anticipated net profit after deducting all expenses of doing business, which includes our administrative expenses.

RECRUITMENT OF NEW PERSONNEL

Mr. PASSMAN. You plan to add 34 new positions in 1971. These new positions are needed to cope with your increased activity?

Mr. KEARNS. That is right, sir. I did some calculations on that as to the amount of business done per person. In 1969 it was $8,170,000. In 1970, $15,070,000. In 1971 it is projected at $17,670,000, about double per production per employee.

Mr. PASSMAN. Mr. President, are you having any trouble recruiting the competent personnel for these assignments?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. In a great many instances it is necessary for you to have experienced bankers, is it not, or people who really understand finances?

Mr. KEARNS. If we could find them.

Mr. PASSMAN. I say it is desirable to have some men that understand banking, is it not?

Mr. KEARNS. Yes, we do. As a matter of fact, Mr. McCullough is an experienced banker, as is Mr. Clark, our other new director.

REPRESENTATION ALLOWANCE

Mr. PASSMAN. What is your representation allowance?

Mr. KEARNS. It is $12,000 for the current year.

Mr. PASSMAN. Is there any increase in your representation allowance for fiscal 1971?

Mr. KEARNS. It is the same as it has been for years.

Mr. PASSMAN. You have increased your activity—you have more than doubled your lending activities since you have had an increase in the representation allowance?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. I believe that we have been told time and time again that many of the officials of the Export-Import Bank have to spend money out of their own pockets to meet some of these representation expenses, do they not?

Mr. KEARNS. That is one of the privileges of the job.

Mr. PASSMAN. If you want to make it really a privilege, why not absorb it all?

Mr. KEARNS. It isn't that much of a privilege, Mr. Chairman. A little bit is all right, but let's not go too far.

Mr. PASSMAN. What does the representation allowance cover, besides the Coca-Colas and Dr. Peppers? Does it include meals?

Mr. KEARNS. Yes, sir. But not ordinarily just for Government officials. We have an Advisory Committee, for example, which meets four times a year, and we have a luncheon and a dinner for them. It covers that. From time to time we have been called upon to entertain foreign visiotrs, and it covers such things as that. We also have had some meetings of bankers at the Eximbank, and it covers that.

Mr. PASSMAN. You can't entertain Americans out of this allowance? This is your foreign customers or people who may represent foreign clients?

Mr. KEARNS. It does not generally cover just Government employees.

Mr. PASSMAN. I understand. But it can cover entertainment for representatives of foreign governments who may be Americans in this country?

Mr. KEARNS. Yes, it could cover that.

Mr. PASSMAN. Representation doesn't mean necessarily beverages?

Mr. KEARNS. No, sir. Not by a long way.

Mr. PASSMAN. A lot of people are critical of representation allowances. I am not as it is one of the tools of the trade. What part of the $12,000 would be for what we refer to as the cocktail hour?

Mr. KEARNS. I do not know, Mr. Chairman. But if you would like this next year, we can keep accurate records of it.

Mr. PASSMAN. I don't think I want to know, as I think it is just too small to worry about.

Mr. KEARNS. It will be a very, very small proportion.

Mr. PASSMAN. I am talking about the $12,000.

Mr. KEARNS. It would be a very small part of the $12,000.

Mr. PASSMAN. You earn about $120 million net profit. I bet there are commercial banks in the United States that have something to write home about and something that they can really make a case with their directors when they make a million and a half dollars profit. A bank of that size would spend more than $12,000 a year on the so-called representation allowance, would it not?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. Do you get my point?

Mr. KEARNS. That is correct, sir.

Mr. PASSMAN. Gentlemen, I am very sorry that we are having to run our hearings without more Members present. But, as you know, we have six or seven subcommittees running at the present time and it is impossible for any member to be in two places at the same time. In the past, when we waited for other subcommittees to finish their hearings, it resulted in a late bill. One year we disposed of this bill on Christmas Eve morning. This year we didn't get through with this bill until the end of January 1970.

Mr. KEARNS. We are very much aware of that, Mr. Chairman.

Mr. PASSMAN. While I would like to have the full subcommittee present, if we are to meet the deadline set by the Chairman of the full committee for getting all bills through the House by June 15, it is necessary that I run this subcommittee's hearings as expeditiously as possible in order to meet that deadline.

I now yield to Mr. Shriver of Kansas.

TOTAL EXPORT ASSISTANCE AS A RESULT OF NEW PROGRAMS

Mr. SHRIVER. Mr. Kearns, I want to compliment you on your statement and on the activist outlook of the Export-Import Bank under your direction in its efforts to reverse the downward trend in the U.S. balance-of-trade account. We have all been favorably impressed in the past with the Bank's excellent repayment record, and we would hope that the new initiatives outlined in your statement and the justifications would not endanger this record in the future.

Could you compare for us the total export assistance generated by these new programs with the total which has been made available in the past under the narrower assistance programs in as specific figures as possible?

Mr. KEARNS. Although it is difficult to measure the additional exports resulting from individual programs for most of our new activities, one area in which rather precise measurement is possible is our new

discount program. Indeed, in the first seven months of its operation, the Bank received requests for over 370 advance commitments from more than 60 commercial banks. This is more than triple the number of banks which participated in our old program, and at our present rate of activity, our fiscal year 1970 total authorizations will be more than three times the total fiscal year 1969 level under the old program.

In total figures, the Bank expects to support exports valued at over $4.5 billion in fiscal year 1970, as compared to $2.9 billion under the old programs in fiscal year 1969. We believe that, in the future, even higher levels of exports will result from the Bank's new programs.

RELENDING CREDIT PROGRAM

Mr. SHRIVER. On page 6 of your statement you say the major object of the relending credit program is export promotion through the use of a "seeding effect" to produce sales. Would you give us some examples of how this has worked?

Mr. KEARNS. The main goal of our relending credit program is to assist U.S. suppliers in penetrating foreign markets which are not making significant purchases of certain types of U.S. goods and services and to help preserve the U.S. share of foreign markets in which this country's exports are falling off. To do this, we will make available to foreign financial institutions limited lines of credit at our current interest rate of 6 percent, which the foreign institution may then relend to small- and medium-sized buyers in the private sector at a rate of generally 8 to 9 percent on terms of up to 5 years. The types of products and scope of the market to be affected are clearly specified in the relending agreement itself. We believe that this attractive financing enhances the competitive position of U.S. suppliers in currently weak markets, provides the means by which distribution can be established, and frequently introduces the U.S. product to that market. Follow-on business is expected to be financed through private sources without Eximbank's support. This is basically what we mean when we refer to the relending credit program as a "seeding" operation.

One example that I recall provides a good indication of the way such a credit has a secondary effect in follow-up purchases. Six Japanese firms which were final borrowers under two Eximbank relending credits to the Industrial Bank of Japan have imported from the United States since 1965 various equipment totalling about $2.8 million financed by their own funds. This one experience illustrates how distribution mechanisms can be established and continuing markets developed with the follow-on business financed from normal private sources.

We are placing increased emphasis on use of relending credits in support of trade fairs abroad which are promoting certain types of U.S. equipment. For example, during the last year we have used the program in Mexico to support sales of U.S. machine tools and numerical control equipment and have authorized such a credit in support of a trade fair to be held in Spain the first week in March for food processing machinery and air conditioning and refrigeration equipment. We are currently negotiating relending credits to be used in connection with such U.S. sales promotion efforts in Thailand, Brazil, and Iran.

DIFFERENCE BETWEEN BANK AND OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. SHRIVER. Would you explain how the new programs of predevelopment support and political risk guarantees for U.S. equipment differ from similar programs in the Overseas Private Investment Corporation?

Mr. KEARNS. Each differs from its OPIC counterpart in both purpose and result.

As we understand the OPIC predevelopment support, it is a means of encouraging investment in the lesser developed countries by offering to finance up to 100 percent of a prospective private investor's preinvestment survey. Eximbank's engineering, planning and feasibility study program is a means of encouraging exports to any country in which we are permitted to operate by offering to finance for the customer up to 100 percent of the U.S. dollar cost of his advance project studies. The result of an OPIC transaction, hopefully, is a long-term U.S. investment. The result of an Eximbank transaction, hopefully, is the export of U.S. engineering, construction and management services, and the export of U.S. capital equipment, materials, components, and spare and replacement parts.

As we understand the OPIC political risk guarantee for U.S. equipment, it, too, is designed to encourage investment by offering a form of insurance against losses attributable to political events on equipment placed overseas as an investment. Eximbank's program is designed to encourage exports by offering insurance against political loss on equipment shipped abroad for use on a project involving significant exports of U.S. goods and services, and which will be returned to the United States upon completion of the project.

We believe these OPIC and Eximbank programs are each useful. They do not appear to compete or overlap in any significant way.

EXPORT OF AGRICULTURAL COMMODITIES

Mr. SHRIVER. You mention on pages 15 and 16 of your statement that you are placing increased emphasis on efforts to support exports of agricultural commodities other than cotton, which has been supported for years. Would you explain these activities further, especially in regard to wheat and livestock products?

Mr. KEARNS. As you mentioned, we are continuing our historic direct credits to the Japanese for cotton exports, as well as supporting additional cotton exports under our medium-term guarantee and insurance programs and the discount loan program.

Most of our support for grain exports, including wheat, has come under the discount program. For example, so far this fiscal year we have authorized approximately $74.9 million in loans and advance commitments to U.S. commercial banks under the discount program in support of agricultural commodity and livestock exports. Of this amount, $60.2 million relates to exports of varied grains and cattle, and the remainder is for cotton. I might add, as I am sure you know,

Mr. Shriver, that the traditional way to finance agricultural commodity exports has been through the private money markets because this is primarily short-term business. However, in tight money conditions, such as we have today, the banks do not have all the resources needed to provide the financing necessary to meet foreign competition in this particular area. Therefore, they have been coming to us to ease their liquidity problems in order to finance these commodity sales, and we have been extending discount loans to the banks to assist them for this purpose.

In addition, we do support export sales of agricultural commodities and livestock under our medium-term guarantee and insurance programs, as well as under the short-term insurance program. Most of the livestock transactions have involved cattle sales to Mexican buyers. We have experienced some difficulty with these cattle sales and have recently completed a review with officials at the Foreign Credit Insurance Association of the problems involved in insuring such sales. The review resulted from concern on the part of FCIA, and by commercial banks which have financed cattle transactions, over the high risks involved in insuring and financing this type of export sale because of the high incidence of claims. However, we do expect to continue to provide support under these programs.

Also, we believe that our relending credit program, which was designed to develop additional markets for U.S. exports, is directly applicable to the promotion of livestock exports. Under this program, the Bank is prepared to extend direct credits to foreign financial institutions on a selective basis for relending to small- and medium-sized private foreign purchasers of livestock. Use of this facility, of course, will be restricted to promoting sales of livestock which are clearly in addition to current volume or value of sales, and where there is promise of continuing markets for the U.S. products.

COUNTRIES PURCHASING PORTFOLIO CERTIFICATES

Mr. Shriver. If you have not already done so, would you furnish for the record a list of countries which have purchased participations in your loans over the past 3 years and the amount of these purchases?

(The information follows:)

Export-Import Bank of the United States, countries that have purchased participations in Eximbank's loans from July 1, 1966 through December 31, 1969

[In thousands of dollars]

	Amount of purchase
Australia	$1,000.0
Germany	366,068.5
Israel	17,833.5
Italy	295,158.2
Japan	102,460.4
Portugal	2,728.4
Total	785,249.0

The following table updates the list found on page 24 of last year's hearings:

EXPORT-IMPORT BANK OF THE UNITED STATES

SALES TO FOREIGN PURCHASERS OF EXIMBANK LOANS AND PARTICIPATIONS IN LOANS, APR. 1, 1969, THROUGH DEC. 31, 1969

Loans sold				
Eximbank Loan No.	Area and country of borrower	Foreign purchaser	Subscription amount	Interest rate of loans (percent)
	AFRICA			
2169	Sierra Leone	Republic of Germany	$1,275,000.00	5.500
	Area total		1,275,000.00	
	ASIA			
2290	China (Taiwan)	Republic of Germany	980,919.00	5.500
2323	do	do	771,430.00	5.500
2392	do	do	304,581.03	6.000
2446	do	do	584,871.00	6.000
	Country total		2,641,801.03	
1122	India	Republic of Germany	2,047,500.00	5.750
2076	do	do	1,136,871.63	5.750
2086	do	do	750,000.00	5.750
2120	do	do	3,937,500.00	5.750
2185	do	do	1,086,030.00	5.500
2194	do	do	548,440.00	5.500
	Country total		9,506,341.63	
1328	Israel	Republic of Germany	222,670.61	5.750
2386	Korea	do	107,142.00	6.000
1440	Philippines	do	387,878.80	5.750
1584	do	do	5,122,374.00	5.750
	Country total		5,510,252.80	
	Area total		17,988,208.07	
	EUROPE			
2291	Finland	Republic of Germany	78,512.52	5.500
1606	Greece	do	94,660.64	5.750
2235	do	do	250,000.00	5.500
	Country total		344,660.64	
2325	Iceland	Republic of Germany	739,284.00	5.500
2504	Italy	Ufficio Italiano di Cambi	5,910,549.81	4.875
2157-H	do	do	10,649,080.00	5.125
2344	do	do	13,150,663.97	5.500
	Country total		29,710,293.78	
1000	Spain	Republic of Germany	583,784.72	5.250
1096	do	do	1,269,999.00	5.750
2112	do	do	441,315.00	5.750
2123	do	do	1,933,332.00	4.750
2186	do	do	1,199,878.64	6.000
2213	do	do	2,249,999.97	5.500
2405	do	do	1,057,158.00	6.000
	Country total		8,735,467.33	
2414	Sweden	Republic of Germany	1,542,858.00	6.000
2268	United Kingdom	do	3,714,285.00	4.750
2338	do	do	2,439,201.00	4.750
2354	do	do	11,879,627.00	4.750
2443	do	do	69,392,831.82	4.750
	Country total		87,425,944.82	
2293	Yugoslavia		966,894.21	6.000
	Area total		129,543,915.30	

EXPORT-IMPORT BANK OF THE UNITED STATES—Continued

SALES TO FOREIGN PURCHASERS OF EXIMBANK LOANS AND PARTICIPATIONS IN LOANS, APR. 1, 1969, THROUGH DEC. 31, 1969—Continued

Loans sold				
Eximbank Loan No.	Area and country of borrower	Foreign purchaser	Subscription amount	Interest rate of loans (percent)
	LATIN AMERICA			
2260	Argentina	Republic of Germany	$460,234.75	5.500
2285	do	do	270,800.00	5.500
	Country total		731,034.75	
R-1	Brazil	Republic of Germany	3,300,000.00	5.250
1041	do	do	347,940.00	5.500
1042	do	do	177,250.00	5.500
1570	do	do	6,000,000.00	5.750
1572	do	do	5,753,600.00	5.250
2247	do	do	291,487.00	5.500
2449	do	do	1,696,611.00	6.000
	Country total		17,566,888.00	
374-502	Chile	Republic of Germany	2,000,000.00	4.000
1299	do	do	2,100,000.00	5.750
1991	do	do	33,124.37	5.500
2196	do	do	142,199.00	5.500
2382	do	do	1,728,996.00	6.000
2383	do	do	862,712.00	6.000
	Country total		6,867,031.37	
1209	Colombia	Republic of Germany	31,073.48	5.750
1605	El Salvador	do	351,326.91	5.750
2254	Honduras	do	21,329.85	6.000
1083	Mexico	do	58,334.00	5.750
2099	do	do	1,300,000.00	5.750
2143	do	do	187,500.00	5.500
2198	do	do	680,656.00	5.500
2297	do	do	700,000.00	5.500
2379	do	do	486,000.00	6.000
	Country total		3,412,490.00	
963	Peru	Republic of Germany	1,050,000.00	6.000
1509	do	do	650,000.00	5.750
2208	do	do	1,628,954.62	5.500
2380	do	do	534,778.00	6.000
	Country total		3,863,732.62	
	Area total		32,844,906.98	
	OCEANIA			
2327	Australia	Republic of Germany	12,992,987.82	4.750
2328	do	do	1,054,582.94	5.500
2441	do	do	15,481,226.32	4.750
2442	do	do	1,668,254.36	5.500
2538	do	do	9,015,084.77	4.750
2539	do	do	628,159.00	5.500
	Area total		40,840,295.21	
	OTHER			
0066-E	Miscellaneous	Republic of Germany	2,880,000.00	4.875
0066-J	do	do	4,085,011.76	4.875
0067-D	do	do	2,252,461.00	5.500
0067-G	do	do	468,908.00	5.500
0067-K	do	do	2,015,430.00	5.500
0068-D	do	do	316,667.00	6.000
	Total other		12,018,477.76	
	Grand total		234,510,803.32	

GUARANTEE OF FOREIGN BANK DOLLAR LOANS

Mr. SHRIVER. On page "e" of the justifications you note the Bank's willingness to guarantee foreign bank dollar loans to their importers if the loan is used to purchase U.S. products. Assuming that you use good business sense in these transactions, I would not question this procedure, but is this used only when U.S. banks are not interested in the specific transaction?

Mr. KEARNS. Let me say, first, Mr. Shriver, that the foreign financial guarantee program is not intended to supplant export financing by U.S. institutions. It was designed to increase the amount of funds available from all sources for the support of U.S. export sales.

As a general rule, our financial guarantee will not be extended to a foreign financial institution on export sales whenever and wherever private U.S. sources of funds are willing and able to finance the transactions on reasonable terms. Also, foreign financial institutions eligible under this program include foreign branches of U.S. commercial and investment banks and offices overseas of U.S. trading companies and other U.S. financial institutions, as well as either public or private foreign commercial and development banks and other foreign financial institutions.

Normally, loans made by foreign financial institutions which are covered by Eximbank's guarantee will be associated with projects in which Eximbank participates through its direct loan program and may involve participation with U.S. commercial banks whose loans could also be covered by an Eximbank financial guarantee. Or the foreign financial institution loan may cover the U.S. portion of consortium projects in which suppliers of that institution's own country may be participating.

In any case, we apply the same criteria on guarantees to foreign financial institutions as we do on our direct credits or our guarantees to U.S. institutions. We will require, for example, that the obligation of the borrower to repay be unconditionally guaranteed by a financial institution or other guarantor satisfactory to the foreign financial institution and to Eximbank. And, of course, we receive the same guarantee fees as we charge on our guarantees to domestic institutions.

We believe that this program has two very important aspects: it increases the total funds available from sources other than Eximbank to support increased U.S. export sales, and it provides an immediate, 100-percent favorable impact on the U.S. balance of payments to the extent of the foreign source financing at the time of the export sale.

TRAVEL FOR PROMOTING BANK'S NEW PROGRAMS

Mr. SHRIVER. The justifications mention the increased emphasis on travel for promotional purposes, and your budget estimates for this activity for fiscal years 1970 and 1971 are over four times the 1969 amount. Would you explain in greater detail your expectations and any early results from this increase?

Mr. KEARNS. Most all of the increased travel budgeted for fiscal years 1970 and 1971 is to, first, explain and promote Eximbank's new and revised programs, particularly our guarantee programs which facilitate exports while conserving Eximbank's limited funds; and, second,

to encourage U.S. firms who are potential exporters to begin selling overseas. Another factor is the increased monitoring of the Bank's loan and investigations of situations which may lead to an Eximbank credit authorization.

We believe that this type of personal contact is the fastest and most effective way to inform the U.S. export community and potential exporters of the Bank's new and revised programs, and to encourage their use of Eximbank's facilities when necessary to finalize an export sale.

Part of this travel is incurred in connection with trade fairs and conferences, such as the Mexico City trade fair this past fall. As one example of the results of our travels to and participation in this type of function, the Bank's representation at the Mexico City trade fair resulted in the authorization of a $3 million relending credit to four Mexican banks to loan money to small businessmen to assist them in purchasing U.S. goods and services. The size and nature of these businesses were such that they probably would not have become buyers of U.S. goods if it had not been for our specific program in this regard.

Undoubtedly, partly as a result of our travels, U.S. exporters are now more aware than ever of Eximbank's facilities and the Bank's desire to actively promote U.S. exports. The total exports resulting from this type of activity is impossible to measure, but the Bank believes that its impact will be very substantial.

EXPORT EXPANSION LOANS

Mr. SHRIVER. On page "h" you say the export expansion loans to obligors and countries which would not ordinarily qualify under the Bank's criteria "are not and will not be on concessionary terms." At the same time, it is more likely that these loans might have to be rescheduled at a future date, is it not?

Mr. KEARNS. I would agree with you to the extent that transactions which the Bank supports under the export expansion facility would be more likely to require rescheduling than those handled under our regular programs, but I would emphasize that we do not anticipate the necessity for reschedulings when we authorize these transactions and we do not know of any cases at this time which may require rescheduling. The purpose of this facility, of course, is to permit Eximbank greater flexibility in our operation in order to expand U.S. exports. But this in no sense implies that the transactions are done on so-called soft terms, which in fact we are prohibited from extending by the authorizing statute.

LOANS TO SPAIN FOR DEFENSE ARTICLES

Mr. SHRIVER. Has the Bank authorized any credits for the export of defense articles to Spain during the past year? Are any anticipated in the near future?

Mr. KEARNS. The Bank did not authorize any credits during fiscal year 1969 for exports of defense articles to Spain.

In connection with the U.S. Spanish base extension agreement concluded last June 20, 1969, the United States informed the Spanish Government that the Export-Import Bank would make available up to $35 million in credits for the purchase in the United States of military equipment.

The Government of Spain has subsequently requested information about the possible terms and availability of an additional Export-Import Bank credit to finance possible purchase of U.S. military aircraft.

PERSONNEL TRAINING PROGRAMS

Mr. SHRIVER. Does the Bank charge fees for the credit reference service and the personnel training program which are offered to U.S. commercial banks? What is the estimated cost to the Bank of these services?

Mr. KEARNS. Eximbank does not charge fees for either the credit reference service or the personnel training program.

Since the credit reference service is essentially a fuller utilization of resources already available at Eximbank, the cost to Eximbank of this program is minimal.

The personnel training program also involves but small cost to the Bank. While the student is enrolled in the course, he is an employee of the Bank, learning "on the job" as well as attending and participating in seminars conducted by the Bank, and gaining knowledge about the Bank's programs through discussions with members of the Bank's staff. Thus these students are making a positive contribution to the operations of the Bank while they are enrolled in the training program.

CONTRACTUAL SERVICES

Mr. SHRIVER. There has been an almost 70-percent increase over the past 2 years in the contractual services and supplies item listed in the table on page 10 of the justifications. What is included in this item, and what are the reasons for the large increase?

Mr. KEARNS. Included in the category of contractual services and supplies are the costs of repairs to the Bank's building, equipment, repairs, tuition and other training expenses of Eximbank employees, storage of vehicles, certain costs involved in Eximbank's participation in trade fairs and conferences, credit reports, the costs of civil service investigations, certain costs associated with our representative in Europe, and other miscellaneous costs.

There have been increases in virtually all categories since 1969 due to both the general increase in prices of U.S. goods and services and the development of the Bank's new programs and shifting of emphasis in the old ones. However, the major increases occurred in the categories of costs involved in the Bank's participation in trade fairs, and tuition and other training expenses of Eximbank's employees. These increased because of the Bank's increased emphasis on promotional activities and because it is now offering strong encouragement to its employees to enroll in professional training and educational programs both within and outside the government. In addition, for the first time, certain costs of our representative in Europe are included for a full year in fiscal year 1971.

ANNUAL CONGRESSIONAL REVIEW OF BANK'S ACTIVITIES

Mr. SHRIVER. What is the Bank's position relative to these annual legislative budget reviews and the appropriating process?

Mr. KEARNS. The Bank believes strongly that the annual legislative budget reviews are necessary, proper, and desirable.

Of course, as you know, Mr. Shriver, the Bank does not operate on appropriated funds. So what we are talking about here is the annual review of total amounts of Eximbank funds and guarantee and insurance coverage which the Bank may commit for the support of U.S. exports during each fiscal year.

These amounts should relate directly to the demonstrated needs of the export trade, and both the Bureau of the Budget review and the subsequent legislative reviews afford us the opportunity to identify the needs, to justify the total amounts which we find necessary to commit for meeting those needs, and to assure ourselves through your annual approval of the amounts that we are performing in the national interest.

We have, as you are aware, suggested that the net lending activity of the Export-Import Bank—the difference between our disbursements and receipts—be exempted from calculations of the Federal budget surplus or deficit and from annual expenditure limitations.

As stated in the Bank's legislative charter, Eximbank should respond as required to finance and otherwise facilitate the Nation's export trade. We believe the Congress has provided us with adequate resources to finance the Bank's operations in this regard. However, we believe also that the secondary restrictions and constraints, such as those imposed by definitions resulting from the unified budget concept, are counterproductive, are not in the national interest, and, in fact, lead to the uneconomical use of Bank resources.

Nevertheless, we are at the same time saying that, should the unified budget concept restraints on Eximbank's activities be removed, the Bank still should be required to submit annually to the Congress through the Bureau of the Budget for review its budget for administrative expenses, program activities, and aggregate borrowing.

I can state categorically that no representative of the Export-Import Bank advocates or requests exemption from the annual procedure of obtaining Bureau of the Budget and congressional approval of all elements of the Bank's proposed program for the ensuing year. We believe it is in the national interest and beneficial to the Bank to justify publicly each of our requests and to obtain from the Congress its judgment of those requests.

We shall continue to work closely and cooperatively with the Bureau of the Budget, this subcommittee, and other elements of the Congress to achieve an orderly and adequate funding of necessary operations.

Mr. PASSMAN. Thank you very much, Mr. Shriver.

I now yield to Mrs. Reid.

EXPORT EXPANSION LOANS

Mrs. REID. In your report to the Congress on the Bank's budget estimates for fiscal year 1971, Public Law 90–390 is mentioned. As I understand this law, it enables the Bank to approve certain higher risk loans in an effort to assist our country's balance-of-payments position. What type of loans have been approved under this act and how have they affected our balance-of-payments position?

Mr. KEARNS. Loans approved under the export expansion facility from inception through December 31, 1969, have totaled $105.8 million and have been in support of exports totaling over $143 million. These

loans have covered exports of jet aircraft, bus bodies, tire and tube plant, nuclear-power facilities, oil-fired powerplant, and copper mining. All required that a portion of the total contract price be paid in cash, thus immediately benefiting the U.S. balance of payments. As these loans are repaid by the foreign obligor, the principal and interest received make a positive contribution to the U.S. balance-of-payments position.

COMPETITION WITH FOREIGN EXPORT CREDIT BANKS

Mrs. REID. Are there examples of transactions where other countries have been able to offer financing which was better in terms than the United States could offer through the Export-Import Bank?

Mr. KEARNS. The Export-Import Bank endeavors to insure that U.S. exporters are provided with financing that is fully competitive with that offered by our competitors. In the vast majority of cases such financing is provided. Under certain circumstances, however, better terms have been offered by our competitors. Four principal types of circumstances stand out.

In a number of instances our competitors from other industrialized countries have combined aid-type lending with Exim-type lending to create a financing package of considerable softer terms than we are able to match. A prime example is provided by the recent award by Argentina of a nuclear powerplant contract to Siemens of Germany. U.S. suppliers, supported by Eximbank, offered a package typical to nuclear powerplant export financing. However, the winning German package provided $50 million at 6 percent with repayments in 15 years after plant completion and $25 million in the form of an aid-type loan at 4.5 percent repayable from the 14th to the 24th year. Overall, the German financing package provided 24-year financing at an interest rate well under 6 percent. Thus, the German package was far softer than the Bank offer of 15-year, 6-percent financing.

The British have also softened export financing packages markedly with aid-type lending, most notably in support of exports of their BAC–111 twin-jet transport.

A second circumstance under which the Bank has been unable to match lending terms offered by foreign competition concerns transactions which the Bank cannot support due to statutory limitations. Under our regular program, transactions must promise "reasonable assurance of repayment" while under the Export Expansion Facility the "sufficient likelihood of repayment" criterion must be fulfilled. An example of an export transaction which the Bank could not support and which was won by a competitor country is provided by the purchase of commercial aircraft by a small Latin American airline. The poor financial condition of the airline and the refusal of its government to guarantee the transaction made repayment prospects poor. While our task is to support U.S. exports to the full, exports which are not paid for constitute merely a transfer of resources from the United States and cannot be supported by the Bank.

A third circumstance where the Bank would not agree to provide financial support allowing the U.S. exporter to match terms offered by a foreign entity is where the terms offered are unusually long with respect to prevailing international practice and are not supported by

the country's export financing institution. In fact, this circumstance arises very rarely since foreign firms seldom are able to offer unusually long terms in the absence of official support.

In summary, while there are isolated instances whereby the terms offered by the U.S. exporter are inferior to those offered by our competition, the Bank is precluded from matching for one of the following reasons: first, there is an aid component to the financing package; second, the Bank's statutory authority precludes support of the transaction; third, the terms of the transaction are unusually long and lack official support; or fourth, the financial resources of the Bank preclude 100-percent financing at the Bank's lower interest rate.

COMPARISON OF LOSS RECORD

Mrs. REID. How does the Export-Import Bank compare with the World Bank and the Inter-American Bank in the losses sustained over the past 5 years?

Mr. KEARNS. During the past 5 years, Eximbank had loan write-offs totaling $56 thousand. During the same period the Inter-American Development Bank has written off one loan totaling about $1.8 million and the World Bank had no loans written off.

PAYMENT OF DIVIDENDS TO U.S. TREASURY

Mrs. REID. It is my understanding that the Export-Import Bank is one of the few agencies of the Government which actually returns money to the U.S. Treasury each year. How much surplus do you anticipate having in fiscal year 1971?

Mr. KEARNS. We expect net earnings to be about $120 million in fiscal year 1971, from which we anticipate paying a $50 million dividend to the U.S. Treasury. The Bank's retained earnings at the end of fiscal year 1971 are estimated to be almost $1.4 billion.

DISCOUNT LOAN PROGRAM

Mrs. REID. In regard to your discount loan program, does it provide a complete guaranty for commercial banks—or is it just a means of providing such banks with a means of liquefying their loans for export transactions should the need arise?

Mr. KEARNS. Our discount loan program does not provide a guaranty to the commercial banks on the export paper they discount. It is basically a program to provide commercial banks with additional liquidity to finance export transactions. It is usually considered by the banks as backup to relieve temporary cash shortages. The purpose from Eximbank's standpoint is to provide continuity of commercial banks in export financing so that exporters can be assured of the financing support they need.

Mrs. REID. I have no further questions, Mr. Chairman.

Mr. PASSMAN. Thank you very much, Mrs. Reid.

Gentlemen and ladies, that concludes the fiscal year 1971 hearing on the program of the Bank, unless it is necessary for us to ask you to come back.

Mr. KEARNS. Thank you very much, Mr. Chairman. We are at your service.

Mr. PASSMAN. It is always nice to see you, sir, and your colleagues.

TUESDAY, FEBRUARY 24, 1970.

ASIAN DEVELOPMENT BANK

WITNESSES

JOHN R. PETTY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, TREASURY DEPARTMENT
BERNARD ZAGORIN, U.S. DIRECTOR, ASIAN DEVELOPMENT BANK
RALPH HIRSCHTRITT, DEPUTY TO THE ASSISTANT SECRETARY FOR INTERNATIONAL FINANCIAL AND ECONOMIC AFFAIRS, TREASURY DEPARTMENT
MISS THELMA E. VETTEL, FAR EASTERN ADVISER, TREASURY DEPARTMENT
MICHAEL BRADFIELD, ASSISTANT GENERAL COUNSEL FOR INTERNATIONAL AFFAIRS, TREASURY DEPARTMENT
ERNEST C. BETTS, JR., DEPUTY ASSISTANT SECRETARY FOR ADMINISTRATION, AND DIRECTOR, OFFICE OF BUDGET AND FINANCE, TREASURY DEPARTMENT

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Program by activities: Investment in Asian Development Bank (costs—obligations) (object class 33.0)	20,000	20,000	20,000
Financing:			
Unobligated balance available, start of year	−100,000	−100,000	−100,000
Unobligated balance available, end of year	100,000	100,000	100,000
Budget authority (appropriation)	20,000	20,000	20,000
Relation of obligations to outlays:			
Obligations incurred, net	20,000	20,000	20,000
Obligated balance, start of year	20,000	30,000	40,000
Obligated balance, end of year	−30,000	−40,000	−50,000
Outlays	10,000	10,000	10,000

Mr. PASSMAN. The committee will come to order.

Would you proceed with your statement, Mr. Petty?

GENERAL STATEMENT OF ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, TREASURY DEPARTMENT

Mr. PETTY. Yes, Mr. Chairman.

I am making a short statement with respect to multi-institutions in general.

Mr. Zagorin will speak specifically to the Asian Development Bank.

Mr. Chairman, I very much appreciate the opportunity to appear before this committee in support of the appropriation request for the Asian Development Bank. With your permission I would like to make a brief general comment applicable to the request before you today and

to the appropriation request for the other international financial institutions which will be before you in the days ahead. The President in his budget message earlier this month in making budgetary provision for the international financial institutions stated his strong support for these institutions as effective channels for development assistance. He outlined this approach in his report to the Congress last week on "United States Foreign Policy for the 1970's," where he said:

> In our reappraisal of the purposes and techniques of foreign assistance, we have already reached several conclusions and we have adopted policies to begin to carry them out:
>
> Multilateral institutions must play an increasing role in the provision of aid. We must enlist the expertise of other countries and of international agencies, thereby minimizing the political and ideological complications which can distort the assistance relationship. We are already contributing to a number of international and regional institutions: the International Development Association, the Inter-American Development Bank, and the Asian Development Bank. I will shortly propose a new U.S. contribution to the special funds of the Asian Bank. And I am prepared to respond positively to proposals for replenishment of the resources of the Inter-American Bank and the International Development Association.
>
> The developing countries themselves must play a larger part in formulating their own development strategies. Their own knowledge of the needs must be applied, their own energies mobilized to the tasks. This is the approach I emphasized in my address on Latin America.

Last Friday Secretary Kennedy pointed out why we feel these multilateral financial institutions are so advantageous. I think these are worth recapitulating.

They permit each donor country to contribute according to its financial strength, with all countries contributing on the same terms.

They permit a pooling of knowledge and expertise on development problems which no single country can muster.

They provide for an allocation of assistance on the basis of development need, relatively free from political ties or commercial factors, thereby minimizing political motivation for assistance.

They are forums for bringing international influence to bear on donor countries in connection with their aid policies, and on recipient countries to follow generally acceptable development policies.

They provide an important force in favor of more open and less restrictive national economies—leading to a more effective use of externally provided resources as well as a more rational allocation of resources at home.

They provide a shielding device against, first, undue reliance of any recipient on a particular source of aid; and, second, undue responsibility of any donor in support of a particular recipient.

I have become familiar with the work of these multilateral institutions and believe they are conducting their activities in a businesslike manner. Their objectives of development assistance are clear and their responsibility to pursue these objectives by maintaining the confidence of both donor and developing countries is equally clear. These institutions subject themselves to the added scrutiny of the private market to which they constantly turn for additional resources, obtained through borrowings. The United States can be proud of its role in furthering the work of these institutions, and the taxpayer is well served when the funds that Congress appropriates join with the resources of so many other donor countries to contribute effectively to the need we all recognize.

The Honorable Bernard Zagorin, the U.S. Executive Director of the Asian Development Bank, is with us today, in from Manila, to support an appropriation request to continue our capital contributions to one of these very important institutions, the Asian Development Bank. As you know, the President's budget requests $20 million as the fifth and last installment of the U.S. initial subscription of $200 million for this institution.

Tomorrow, the U.S. Executive Director of the World Bank, the Honorable Robert Wieczorowski, will be here to discuss the request for $160 million for the International Development Association.

BIOGRAPHY

Mr. PASSMAN. We will insert the biography of the U.S. Director to the Asian Development Bank, Mr. Zagorin, at this point in the record, and we will then hear your general statement, Mr. Director.

(The biography follows:)

BIOGRAPHY OF U.S. DIRECTOR OF THE ASIAN DEVELOPMENT BANK, BERNARD ZAGORIN

Mr. Zagorin was born at Chicago, Ill., on January 6, 1921. He was educated at Los Angeles City College and the University of Chicago, where he achieved membership in Phi Beta Kappa. He is married to the former Ruth Kramer of Chicago. The Zagorins have four children and they reside in Falls Church, Va.

Mr. Zagorin was in he U.S. Army Signal Corps from 1942 to 1946. From 1946 to 1949 he was in graduate study at the University of Chicago. In 1948 and 1949 he was a lecturer at Roosevelt College, Chicago.

He has been a U.S. Government employee since June 1949, when he joined the Economic Cooperation Administration, in London, as an economist. He joined the Treasury in July 1951 as Assistant Treasury Representative and Assistant Financial Attaché of the U.S. Embassy at London. In 1955 he became Assistant Chief, European Division, Office of International Finance, at the Treasury in Washington.

Mr. Zagorin's direct association with Asian economic development problems began in 1959, when he went to New Delhi, India, as Treasury Representative and Financial Attaché at the U.S. Embassy. In 1963 he became Director of the Treasury's Office of Developing Nations in Washington. In September 1965 he was appointed alternate U.S. Executive Director at the International Bank for Reconstruction and Development—World Bank—in Washington. Since December 1966 he has served as U.S. Executive Director of the Asian Development Bank in Manila.

GENERAL STATEMENT OF U.S. DIRECTOR OF ASIAN DEVELOPMENT BANK

Mr. ZAGORIN. Mr. Chairman, my purpose in appearing before the committee today is to support the administration's request for an appropriation of $20 million representing the fifth installment of the U.S. subscription to the paid-in capital of the Asian Development Bank.

On March 16, 1966, the Congress enacted the Asian Development Bank Act (Public Law 89-369), which authorized the United States to join the Bank, and authorized the appropriation of $200 million as the U.S. subscription to the capital stock of the Bank. In accordance with that congressional authorization, the United States accepted membership in the Bank in August 1966 and pledged to subscribe its share of capital stock as provided for in the agreement establishing the Bank.

The U.S. subscription of $200 million to the capital stock of the Bank represents just over 20 percent of the Bank's total subscribed capital stock of $978 million. Our subscription is divided into two parts. One

part consists of $100 million of callable capital, which was appropriated in the Second Supplemental Appropriation Act of 1966, to provide our share of backing for borrowing by the Bank in private capital markets. Our callable capital subscription would be paid to the Bank only in the unlikely event that the Bank would be unable to meet obligations on borrowings or guarantees made by the Bank chargeable to its ordinary capital resources.

The second part of our capital subscription consists of $100 million of paid-in capital. This amount is payable to the Bank in five equal annual installments of $20 million each. The first four installments fell due in August 1966, 1967, 1968 and 1969. The appropriation request before you is for the $20 million for the U.S. fifth installment.

As in the case of the previous installments, only half of the $20 million would be paid in cash. The other half would be paid in a non-negotiable, non-interest-bearing letter of credit, which will not require a cash outlay by the United States until the Bank requires the funds for its operations.

BACKGROUND

The Asian Development Bank is an international financial institution whose purpose is to foster economic growth and cooperation in the region of Asia and the Far East. The Bank's membership now consists of 33 countries, 20 of which are located in Asia and 13 of which are outside the Asian region. Sixteen of the members are developed countries and 17 are developing countries. In organization, functions, and capital structure, the Bank is similar in many respects to previously established international development financing institutions—in particular the International Bank for Reconstruction and Development.

The Bank is governed by a Board of Governors and a full-time Board of Directors. Each member government is represented by one Governor and one Alternate Governor. The Board of Directors is composed of 10 members, seven elected by member countries from the Asian region, and three by the nonregional member countries. Four of the Directors and their Alternates represent the four largest contributors—United States, Japan, India, and Australia. The other six Directors and their Alternates represent groups of members.

The voting power of each member country, both in the Board of Governors and in the Board of Directors, is roughly commensurate with its subscription to the Bank's capital stock. Thus the United States and Japan, each of which subscribed approximately 20 percent of the initial authorized capital of the Bank, each has about 17 percent of the voting power of the Bank.

THE BANK'S ACHIEVEMENTS THUS FAR

The Bank has now completed 3 years of operations. Its lending operations began during its second year—1968—and the pace of its lending activity has quickened considerably over the past 2 years. To date, the Bank has made 21 loans from ordinary capital resources, totaling $117.695 million.

Fifteen of these loans were for specific projects—tea factory modernization in Ceylon; an expressway, a cold storage project and trans-

port and stevedoring facilities in Korea; a highway, petrochemical and metals processing plants, harbor development and fishing vessels in China; a water-supply scheme, palm oil mills, electricity supply and port expansion in Malaysia. The other six loans were to industrial development banks in Korea, Pakistan, the Philippines, Singapore, and Thailand, providing funds for relending to private borrowers to finance industrial development—loans which will help to enlist the talent and the initiative of private enterprise in these countries.

The Bank's current interest rate for loans from ordinary capital is 6⅞ percent, including 1 percent commission, plus a commitment charge of three-quarters of 1 percent. For the loans approved thus far, the average maturity has been approximately 14 years.

In addition, the Bank has made six loans from its special funds resources totaling $22.005 million—to Ceylon, Indonesia, Nepal, the Philippines, and Western Samoa, for irrigation land development, highway, and air transport projects.

The Bank has continued to emphasize its technical assistance activities. It has approved 24 technical assistance projects to 12 of its member countries at an estimated cost of $3.4 million. They are in such fields as food production and distribution, rural credit, irrigation, water management, agricultural and development financing, airport and highway development, and fisheries development. The Bank has published the results of its Asian agricultural survey and, as a followup, sponsored a regional agricultural seminar in conjunction with its second annual meeting in Sydney, Australia, in April 1969. The Bank has also undertaken a major regional transport survey, as well as a study of Southeast Asia's economy in the 1970's.

SOURCES OF THE BANK'S FINANCING FOR LENDING AND TECHNICAL ASSISTANCE

The Bank's charter envisages that the Bank's ordinary lending activities will be financed from two main sources of funds—paid-in capital and funds raised by borrowings in private capital markets in member countries and elsewhere.

The Bank's first bond issue—DM60 million ($15 million) 7-percent bonds due in 1975–84—was floated in Germany in September 1969 and sold at 97½ percent. The bonds were sold to an international syndicate led by the Deutsche Bank, A.G., and are listed on the stock exchanges in Frankfurt am Main, Dusseldorf, and Vienna.

The Bank's articles of agreement call for it to "give due regard to the general principle that its borrowings should to the greatest extent possible be diversifed as to country of borrowing." There are no plans to issue ADB securities in the United States in the near future.

The chief source of the Bank's funds for its ordinary lending operations at present, therefore, is its paid-in capital—currently amounting to $388.5 million, of which the United States has contributed $80 million, or just over 20 percent. These are the funds which are being used and will continue to be used by the Bank for financing on conventional "hard loan" terms.

In addition to ordinary capital for conventional lending, the Bank's articles of agreement authorize the establishment of special funds for use in financing priority development projects and programs on more

concessional terms. There are two sources of capital for these special funds. First, the Bank can set aside up to 10 percent of its unimpaired paid-in capital—and the Board of Governors recently voted to set aside for this purpose $14.575 million. Second, the Bank can accept contributions to its special funds from donor countries, and thus far has received contributions from Canada, Japan, Denmark, and the Netherlands. President Nixon has announced his intention to submit to the Congress a proposal for a U.S. contribution to the Bank's consolidated special funds.

The Bank's technical assistance activities thus far have been financed from two sources—from utilization of a portion of the Bank's earnings, and from technical assistance contributions to the Bank. Canada, Denmark, Finland, Germany, Japan, New Zealand, the United Kingdom, and the United States have contributed to technical assistance.

BALANCE OF PAYMENTS

We do not foresee any cost to the U.S. balance of payments resulting from our participation in the Asian Development Bank. Of the total subscription payments, the United States has paid half in cash and the other half in non-interest-bearing letters of credit. The non-interest-bearing letters of credit have no adverse effect on our balance of payments until they are drawn on by the Bank to meet loan disbursements, and then only to the extent that the proceeds are not used by the borrower to purchase U.S. goods and services.

The balance-of-payments impact of the cash payments which we have made has been more than offset by the Bank's investment of these and other funds in the United States, much of it at long term. Therefore, as of now the Asian Development Bank has produced a savings in our balance of payments.

CONCLUSION

Article 6.1 of the Bank's articles of agreement calls for the fifth installment on our subscription to paid-in capital stock of the Bank to be paid in August 1970. Section 7 of the Asian Development Bank Act (Public Law 89–369) authorizes the appropriation of the $20 million necessary to meet this obligation. The budget for 1971 which you are now considering requests this appropriation.

The Asian Development Bank has earned the confidence of the private business and financial community as well as of governments as a sound and responsible financial institution. It is also gaining a reputation among the people of Asia as a valuable institution for helping them overcome development problems and achieve a better life.

I urge the committee to recommend the appropriation of the $20 million necessary to pay the fifth installment on our subscription to the Asian Development Bank.

JUSTIFICATION MATERIAL

Mr. PASSMAN. We will insert the justification material at this point in the record.

(The justifications follow:)

Funds appropriated to the President, Asian Development Bank

[Dollars in thousands]

APPROPRIATIONS

	Total U.S. participation authorized
Public Law 89–369:	
Callable capital	$100,000
Paid-in capital	100,000
Total	200,000

AUTHORIZATION

Second Supplemental Appropriations Act, 1966:	
Callable capital stock	100,000
Paid-in capital	40,000
Foreign Assistance and Related Agencies Appropriation Act, 1969	20,000
Foreign assistance and related agencies Appropriation Act, 1970	20,000
Estimate in 1971	20,000
Total	200,000

SUMMARY JUSTIFICATION OF FISCAL YEAR 1971 BUDGET ESTIMATES

A. BACKGROUND

The Asian Development Bank is a regional development financing institution established for the purpose of financing economic development projects and programs in and among the developing countries of Asia. The agreement establishing the Bank came into force on August 22, 1966, upon ratification by the United States and 14 other countries. The U.S. instrument of ratification was deposited at the United Nations on August 16, 1966.

The Board of Governors of the Bank held its inaugural meeting in Tokyo, November 24–26, 1966. On December 19, 1966, the Board of Directors declared the Bank open for business at its headquarters in Manila. The Second Annual Meeting was held in Sydney, Australia, April 10–12, 1969.

The Bank has 33 members, 20 of which are regional countries, and 13 of which, including the United States, are developed nonregional countries. Sixteen of the members are developed countries and 17 are developing countries. Membership in the Asian Development Bank is open to members and associate members of the United Nations Economic Commission for Asia and the Far East (ECAFE) and to other regional countries and nonregional developed countries which are members of the United Nations or of any of its specialized agencies. Attached is a list of the members of the Asian Development Bank and their subscriptions.

Each member country is represented on the Board of Governors. The Secretary of the Treasury, David M. Kennedy, is the U.S. Governor, and the Deputy Under Secretary of State for Economic Affairs, Nathaniel Samuels, is the Alternate U.S. Governor. The Board of Directors of the Bank consists of 10 members, seven of whom are elected by the Governors representing regional member countries, and three of whom are elected by the Governors representing nonregional member countries. The United States, Japan, Australia, and India are assured of individual Directors. Each of the other six Directors represents a group of member countries. Mr. Takeshi Watanabe of Japan was elected the first President of the Bank at the inaugural meeting for a term of 5 years. Mr. Krishna Moorthi of India is Vice President.

B. ORDINARY CAPITAL

Of the Bank's $1.1 billion authorized capital $978 million has been subscribed: $623 million by the regional members (including $200 million by Japan) and $355 million by the nonregional members (including $200 million by the United States).

Article 6 of the Bank's articles of agreement provides that one-half of each member's subscription is to be paid in five equal annual installments and one-

half is to remain callable to provide backing for future borrowings by the Bank. (Hong Kong, the 33d member of the Bank, subscribed to $8 million shares, the paid-in portion of which will be paid in four equal annual installments beginning March 27, 1969.) Of the paid-in portion of capital subscriptions 50 percent is payable in convertible currency and 50 percent in the currency of the member; the "national currency" portion or paid-in subscriptions may be paid in the form of negotiable, non-interest-bearing obligations payable to the Bank upon demand when required for the Bank's operations. The developing country members may restrict the use of the portion paid in their own currencies to payments for goods and services produced and intended for use in their own territory.

As of December 31, 1969, $388.5 million of the $489 million of paid-in shares had matured and been paid.

C. THE U.S. SUBSCRIPTION TO ORDINARY CAPITAL

The Asian Dvelopment Bank Act (Public Law 89–369), of March 16, 1966, authorized U.S. membership in the Bank and the appropriation of the U.S. subscription of $200 million. Of this amount, $100 million is to be paid in five annual installments of $20 million each ($10 million in cash and $10 million in non-interest-bearing letters of credit), and $100 million is callable.

The first four installments of the paid-in portion of the U.S. subscription have been paid, amounting to a total of $80 million, of which $40 million was in cash and $40 million in the form of nonnegotiable, non-interest-bearing letters of credit. The $100 million of U.S. callable capital subscription was fully subscribed (no cash payment being required) concurrent with the first installment on paid-in capital.

The current appropriation request is for the fifth installment on paid-in capital of $20 million, which is due in August 1970.

D. THE BANK'S OPERATIONS TO DATE

The Bank has now completed 3 years in operation.

To date, the Bank has approved 21 loans from ordinary capital resources, totaling $117.695 million. They include loans to industrial development banks in Korea, Pakistan, Philippines, Singapore and Thailand; for highways in China and Korea; for tea factory modernization in Ceylon; for water supply, palm oil mills and port development and electricity supply in Malaysia; for petrochemical and metals processing plants, fisheries, and port development in China; and for transport and stevedoring facilities, and cold storage and marketing facilities for fish in Korea. The Bank's current rate of interest for loans from ordinary capital is 6⅞ percent per annum, plus a commitment charge of three-fourth of 1 percent per annum.

The Bank has also approved six loans from its special funds resources totaling $22.005 million—to Ceylon, Indonesia, Nepal, the Philippines, and Western Samoa for irrigation, land development, air transport and highway projects.

The Bank has emphasized its technical assistance role. It has provided technical assistance to Indonesia in food production and distribution, and in rural credit; to Korea in agriculture and fishery; to Laos in agricultural development; to Nepal in agricultural development banking and air transport development; to the Philippines in fisheries port construction and water management; to China with a highway feasibility study and engineering; to Vietnam with respect to development financing institutions; and to Western Samoa in airport and road construction. The Bank is also contributing to a regional research center in vegetable production. As a followup to its Asian agricultural survey the Bank sponsored an agricultural seminar of Asian and other officials and experts in conjunction with its second annual meeting in Sydney, Australia. The Bank is also undertaking a major regional transport survey requested by eight Southeast Asia ncountries, as well as a study of Southeast's economy in the 1970's. These activities have been financed both from the Bank's ordinary capital and from special contributed resources.

The Bank's first bond issue was floated in Germany September 10, 1969—DM 60 million ($15 million) 7 percent bonds due in 1975–84, which sold at 97½ percent. The Bank has no present plans for raising capital in the United States. Before selling securities in the territory of a country the Bank must obtain the country's approval.

As shown in the attached statement, during 1969, the Bank's income, principally from its investments, totaled about $12.9 million, while its expenses totalled about $7.4 million, leaving a net income of about $5.5 million, as compared to a net income of $3.4 million in 1968.

Subscriptions to the authorized capital stock of the Asian Development Bank

[In millions of U.S. dollars]

REGIONAL COUNTRIES		NONREGIONAL COUNTRIES	
Afghanistan	$4.78	Austria	$5.00
Australia	85.00	Belgium	5.00
Cambodia	3.50	Canada	25.00
Ceylon	8.52	Denmark	5.00
China, Republic of	16.00	Finland	5.00
Hong Kong	8.00	Germany, Federal Republic of	34.00
India	93.00	Italy	20.00
Indonesia	25.00	Netherlands	11.00
Japan	200.00	Norway	5.00
Korea, Republic of	30.00	Sweden	5.00
Laos	0.42	Switzerland	5.00
Malaysia	20.00	United Kingdom	30.00
Nepal	2.16	United States	200.00
New Zealand	22.56		
Pakistan	32.00	Total	355.00
Philippines	35.00		
Republic of Vietnam	12.00	Grand total	978.00
Singapore	5.00		
Thailand	20.00		
Western Samoa	0.06		
Total	623.00		

ASIAN DEVELOPMENT BANK, ORDINARY CAPITAL RESOURCES—COMPARATIVE STATEMENT OF INCOME AND EXPENSES FOR THE YEARS ENDED DEC. 31, 1968, AND DEC. 31, 1969

[Expressed in U.S. dollars]

	1968	1969
Income:		
From investments	7,123,644	12,372,250
From loan operations:		
Interest	12,477	237,550
Commissions	2,124	40,434
Commitment charge	18,727	233,122
From other sources	19,619	96,457
Gross income	7,176,591	12,979,813
Deduct commissions appropriated to special reserve	2,124	40,434
Unappropriated gross income	7,174,467	12,939,397
Expenses:		
Administrative expenses:		
Board of Governors	35,599	64,892
Board of Directors:		
Salaries	381,052	440,517
Benefits	67,197	84,772
Travel	88,414	150,897
Staff services	40,367	48,763
Total, Board of Directors	577,030	724,949
Staff		
Salaries	1,369,996	2,351,370
Benefits	384,513	658,262
Travel	441,386	779,356
Representation	24,754	44,849
Consultants	136,528	159,194
Total, staff	2,357,177	3,993,031
Other administrative expenses:		
Communications	103,425	163,686
Office occupancy	29,252	63,860
Publications and printing	79,015	105,133
Expendable supplies	74,901	129,168
Furniture and equipment	84,664	160,476
Fees and compensation	102,265	154,613
Miscellaneous	121,864	92,790
Total, other administrative expenses	595,386	869,726
Total, administrative expenses	3,565,192	5,652,598
Services to member countries:		
Project preparation and other loan-related technical assistance	46,391	666,243
Advisory missions and other technical assistance	80,093	319,919
Regional transport survey		399,604
Asian agricultural survey followup seminars		33,470
Other regional services		22,341
Total services to member countries	126,484	1,441,577
Financial expenses:		
Interest on funded debt		317,757
Funded debt issuance and other financial expenses		23,545
Total financial expenses		341,302
Gross expenses	3,691,676	7,435,477
Net income	3,482,791	5,503,902

Mr. PASSMAN. We have a question or two on your prepared statement, Mr. Director. We note that the U.S. subscription of $200 million to the capital stock represents just over 20 percent of the Bank's total subscribed capital.

What do you mean by "just over"? What is the accurate amount?

Mr. ZAGORIN. The total subscribed is $978 million and within 2 weeks or 3 weeks it will be over a billion dollars.

Mr. PASSMAN. I am talking about the situation as of now.

Mr. ZAGORIN. $978 million.

MEMBERSHIP AND CONTRIBUTION OF EACH TO THE BANK

Mr. PASSMAN. I notice the Bank membership consists of 33 countries, 20 of which are located in the Asia region and 13 outside the region.

Will you place in the record at this point the name of each member?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. And also the amount each one has contributed?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Separate the two contributions, one being the amount of cash advanced and the other being the callable capital. Will you do that?

Mr. ZAGORIN. Yes, sir.

(The information follows:)

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES SUBSCRIPTION TO CAPITAL STOCK, DEC. 31, 1969

[Expressed in thousands of U.S. dollars]

Members	Par value	Par value of callable shares subject to call	Par value of paid-in shares		
			Subscription	Installments not due	Installments matured
Regional:					
Afghanistan	$4,780	$2,390	$2,390	$478	$1,912
Australia	85,000	42,500	42,500	8,500	34,000
Cambodia	3,500	1,750	1,750	350	1,400
Ceylon	8,520	4,260	4,206	852	3,408
China, Republic of	16,000	8,000	8,000	1,600	6,400
Hong Kong	8,000	4,000	4,000	3,000	1,000
India	93,000	46,500	46,500	9,300	37,200
Indonesia	25,000	12,500	12,500	2,500	10,000
Japan	200,000	100,000	100,000	20,000	80,000
Korea, Republic of	30,000	15,000	15,000	3,000	12,000
Laos	420	210	210	42	168
Malaysia	20,000	10,000	10,000	2,000	8,000
Nepal	2,160	1,080	1,080	216	864
New Zealand	22,560	11,280	11,280	2,256	9,024
Pakistan	32,000	16,000	16,000	3,200	12,800
Philippines	35,000	17,500	17,500	3,500	14,000
Singapore	5,000	2,500	2,500	500	2,000
Thailand	20,000	10,000	10,000	2,000	8,000
Vietnam, Republic of	12,000	6,000	6,000	1,200	4,800
Western Samoa	60	30	30	6	24
Total regional	623,000	311,500	311,500	64,500	247,000
Nonregional:					
Austria	5,000	2,500	2,500	500	2,000
Belgium	5,000	2,500	2,500	500	2,000
Canada	25,000	12,500	12,500	2,500	10,000
Denmark	5,000	2,500	2,500	500	2,000
Finland	5,000	2,500	2,500	500	2,000
Germany, Federal Republic of	34,000	17,000	17,000	3,400	13,600
Italy	20,000	10,000	10,000	2,000	8,000
Netherlands	11,000	5,500	5,500	1,100	4,400
Norway	5,000	2,500	2,500	500	2,000
Sweden	5,000	2,500	2,500	500	2,000
Switzerland	5,000	2,500	2,500	1,000	1,500
United Kingdom	30,000	15,000	15,000	3,000	12,000
United States	200,000	100,000	100,000	20,000	80,000
Total nonregional	355,000	177,500	177,500	36,000	151,400
Grand total	978,000	489,000	489,000	100,500	388,500

BOARD OF DIRECTORS

Mr. PASSMAN. Your statement indicates that the Board of Directors is composed of 10 members, seven elected by the Asian Region member countries and three by the nonregional member countries. Four directors and their alternates represent the four largest contributors. The other six directors represent groups of members.

Will you place in the record the names of the directors and the countries they represent?

Mr. ZAGORIN. Yes, sir.

(The information follows:)

ASIAN DEVELOPMENT BANK—PRESENT BOARD OF DIRECTORS AND VOTING GROUPS

Director	Alternate	Countries represented [1]
Michelangelo de Grazia (Italy)	Gerhard Janschek (Austria)	Germany, Federal Republic of; Italy, Netherlands, Austria, Belgium, Switzerland.
K. S. Islam (Pakistan)	Cornelio Balmaceda (Philippines).	Philippines, Pakistan.
Byung Kyu Chun (Korea)	Buu Hoan (Vietnam)	Korea, Republic of; China, Republic of; Vietnam, Republic of.
Masaru Fukuda	Fumio Kawano	Japan.
J. C. G. Lloyd	Lance Joseph	Australia.
Abdul Wahab Haider (Afghanistan).	Long Boret (Cambodia)	Indonesia, Ceylon, Afghanistan, Cambodia, Nepal, Laos.
Chanchai Leetworn (Thailand)	Leo J. Downey (New Zealand)	New Zealand, Malaysia, Thailand, Singapore, Western Samoa.
D. S. Joshi	J. R. Huemath	India.
R. W. H. deBoulay (United Kingdom).	John A. Copland (Canada)	United Kingdom, Canada, Denmark, Finland, Norway, Sweden.
Bernard Zagorin	George R. Jacobs	United States.

[1] In order of voting strength within each group.

Mr. PASSMAN. How many directors do we have?

Mr. ZAGORIN. We have one director.

Mr. PASSMAN. How many directors does the Bank have?

Mr. ZAGORIN. Ten.

Mr. PASSMAN. We have 20 percent of the capital and 10 percent of the directors.

Mr. ZAGORIN. Yes, sir.

Mr. PETTY. And 17 percent of the votes.

Mr. LONG. What were the figures again?

Mr. PASSMAN. Ten percent of the directors and 20 percent of the capital.

I am interested in the membership. Voting is one thing and membership is another thing.

If you put up a strong argument it would appear you should have the same percentage of directors as you would have to capital contribution.

Mr. LONG. You said 17 percent of the vote.

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. I am interested in the membership. We contributed 20 percent of the capital, but have only 10 percent of the Board of Directors.

Mr. ZAGORIN. That is right.

Mr. PASSMAN. If we were to keep it in proportion to the contribution of capital, we should have two members on the Board of Directors, is that correct?

Mr. PETTY. That is correct.

PURPOSE OF THE BANK

Mr. PASSMAN. This Bank is to help underdeveloped countries. Is that the main purpose?

Mr. ZAGORIN. Underdeveloped countries in Asia.

Mr. PASSMAN. I believe that India is considered, as far as the nations we are helping, the No. 1 underdeveloped country in the world.

Mr. ZAGORIN. That is right.

Mr. PASSMAN. What business do they have making a contribution to another underdeveloped country?

(No response.)

Mr. PASSMAN. That is a good question, is it not?

Mr. ZAGORIN. They wish to be part of Asia and part of the development of Asia.

CONTRIBUTION OF INDIA

Mr. PASSMAN. I know they wish that. But what is the purpose in having the No. 1 underdeveloped nation in the world, to whom we have given some $7 or $8 billion in aid over the past 20 years, contributing, in all probability, some of the money we have given them or some of their own resources to other underdeveloped countries in Asia?

Mr. ZAGORIN. India expects also to get some benefit from the improved economies which will result from the activities of the Bank.

Mr. PASSMAN. But they are a contributor, are they not?

Mr. ZAGORIN. That is right.

Mr. PASSMAN. This is to help Asia.

Mr. ZAGORIN. That is right.

Mr. PASSMAN. If you used only the capital of the industrialized nations, that is one thing. I do not quarrel with that.

But if you take the No. 1 underdeveloped country in the world, and one of the largest recipients of the AID program, and see them turn around and make a contribution to nations much more developed than they are, it is pretty hard to digest.

Mr. PETTY. The essence is to get broad participation both of donors and recipient countries.

Half of the money India makes available is for use only within India.

Mr. PASSMAN. How about the other half?

Mr. ZAGORIN. Half of the paid-in capital of all the countries is in convertible currency.

Mr. PASSMAN. How much is India contributing?

Mr. ZAGORIN. $93 million is their subscription.

Mr. PASSMAN. Only half of that $93 million subscription would be spent in their country?

Mr. ZAGORIN. No, sir. Half is callable capital, so it works out to be $4.6 million times 5 years is all they put in.

Mr. PASSMAN. India does make available $46.5 million to be sent to the less developed countries in Asia, is that correct?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. They are less developed than the countries they are giving it to, are they not?

Mr. ZAGORIN. Than some of them, not all of them.

Mr. PASSMAN. Which countries would be less developed than India?

Mr. ZAGORIN. Nepal, Laos, Afghanistan, Western Samoa.

Mr. PASSMAN. Are you guessing or could you establish that fact?

Mr. ZAGORIN. I could establish that, sir.

Mr. PASSMAN. Where are your statistics?

Mr. ZAGORIN. I could do it on a per capita income basis.

Mr. PASSMAN. Per capita income has no relationship to the question. There are plenty of nations where you have a per capita income that is low but the individual can dress well and live well.

You have to take into account what the per capita income will buy, don't you?

If you take the gross national product of country A, and apply the prices of the United States to it, it may triple the gross national product of that country, isn't that correct?

If this shirt costs me $15.95 in the United States, it moves into the GNP at that cost, doesn't it? If I were to go to a country where they can manufacture this shirt at a cost of $6.95, it moves into that country's GNP at $6.95, is that correct?

Mr. ZAGORIN. That is correct.

Mr. PASSMAN. So you have to relate GNP to something. I now yield to Dr. Long.

Mr. LONG. I do not understand the chairman's objection to this.

Mr. PASSMAN. Who said I objected? I am trying to establish what it is all about, Dr. Long. India is the No. 1 underdeveloped country in all probability, and we have a fantastically high aid program there. Yet India is contributing through the Bank to other underdeveloped countries.

Mr. LONG. I heard you the first time.

If India is the No. 1 underdeveloped country in the world it would be to our advantage to let India have the chance to see the responsibility that goes along with this whole aid program. If India gets a chance to see how their money is wasted in other underdeveloped countries, they would be less apt to waste our money in their country. I do not deplore this trend at all.

Mr. PASSMAN. You are a very fine man, Doctor, but I would hate to have you on the board of directors of my bank with that kind of reasoning. You say the poorest country in the world should be permitted to give away some of the money that we have given them, so they can see how the money is wasted by another underdeveloped country. I don't understand the reasoning behind that statement.

EFFECT ON BALANCE OF PAYMENTS

You do not foresee any cost to the U.S. balance of payments resulting from our participation in the Asian Development Bank, is that correct?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. What if you had statistics that would prove that 75 percent of what they buy from us with the money we give them would have been bought from us anyway? Would that have any effect on our balance-of-payments situation? The point is that we are giving underdeveloped countries our resources. We are giving some of them money. We say it won't have any effect on our balance of payments.

It would be most difficult to prove that, for the very simple reason we are having a continuation of the deficit position in our balance of payments, are we not?

Mr. ZAGORIN. Yes, sir.

TOTAL AID CONTRIBUTIONS

Mr. PASSMAN. There is not an agency that appears before this committee that will admit that what it is doing has any adverse effect on the balance of payments. That is why we find ourselves so very, very confused. Even the great Mr. McNamara claimed the military assistance program helped the balance of payments.

We do not know who is responsible for any part of the deficit, if we listen to the witnesses.

Let me tell you why I am greatly concerned. There is nothing personal about the way I interrogate, but I do have a responsibility as chairman of this committee. Other members have responsibilities, too. Foreign aid has been greatly fragmentized. Last year we had 22 different spigots which called for $10,528,303,000. For example, the Export-Import Bank now has three windows from which they are disbursing funds.

Then there is the Asian Development Bank, the Inter-American Development Bank, Public Law 480, to name a few—22 spigots totaling $10,528,303,000. We thought that would be the alltime high. But this year when we examine what is in the President's budget for fiscal 1971, plus what is coming down, we find the total is $11.7 billion, or $1,200,000,000 above last year's estimates.

That is one reason why we are just a little bit worried, because this aid program has been fragmentized under so many different names and in so many different places in the budget we cannot keep up with it.

Let us take a brief recess while I go to vote.

(Recess.)

Mr. PASSMAN. The committee will come to order.

Mr. Director, the $20 million requested for fiscal 1971 is the same as that appropriated for fiscal 1970 and it is the fifth and last installment of the $100 million paid-in capital commitment.

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. How much convertible currency did the Bank have on hand as of January 31, 1970?

Mr. ZAGORIN. I can get it for the record.

(The information follows:)

The following is a table showing the convertible currency resources which the Bank had on hand as of December 31, 1969 (in thousands of U.S. dollars):

	Convertible currencies	Other currencies	Total
Cash in banks	$1,158	$6,010	$7,168
Demand obligations of members	114,399	53,448	167,847
Investments	232,055	----------	232,055
	347,612	59,458	407,070

COMMITMENTS OF NONCONVERTIBLE CURRENCIES

Mr. PASSMAN. How much local currency did the Bank have on hand, and how much had been committed or spent?

You can also put that in the record, if you wish.

Mr. ZAGORIN. Yes, sir, I will do that.

(The information follows:)

As of December 31, 1969, the Bank has disbursed $2,305,738.91 of the nonconvertible currency paid in under article 6.2(b) of the articles of agreement.

COUNTRIES WHO HAVE RESTRICTED USE OF THEIR CONTRIBUTION

Mr. PASSMAN. Mr. Director, how many members have restricted the use of their national currency to use in their own country?

Mr. ZAGORIN. To date two countries, Australia and New Zealand, have—at the time they deposited with the United Nations their instruments of ratification of the Agreement Establishing the Asian Development Bank. So far just those two.

Mr. PASSMAN. They would have been just as well off to have committed commodities to the Bank. That is, in effect, what they have done.

Mr. ZAGORIN. Yes, sir; for the national-currency contribution.

Mr. PASSMAN. It is my understanding that 50 percent of India's contribution would be spent in India.

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. How many countries do you have in that category?

Mr. ZAGORIN. Mr. Chairman, in addition to Australia and New Zealand the developing countries of Asia also may so restrict, but that has not yet happened.

Mr. PASSMAN. How about India?

Mr. ZAGORIN. India has not done that so far.

India has not made an application.

Mr. PASSMAN. I thought you indicated earlier that, of India's $93 million contribution, 50 percent would be spent in their own country.

Mr. ZAGORIN. No, sir. I said half of it was paid in callable capital and half of the paid-in capital is paid in their national currency.

Mr. PASSMAN. Then they are making a total contribution of $93 million.

USE OF CALLABLE CAPITAL

Mr. ZAGORIN. The charter allows the developing countries, if they operate——

Mr. PASSMAN. I understand the formula perfectly.

I am trying to find out whether India is tying its contributions to purchase of commodities in their country. If India were called upon to meet their total commitment, would India turn over to the Asian Development Bank the entire $93 million, half in convertible currencies and half in local currency?

Mr. ZAGORIN. If the callable capital were to be called, presumably it would be to meet the obligations of the Bank which were in default without such a call. So the issue of convertible or nonconvertible presumably would not arise.

Mr. PASSMAN. You are not answering my question. Possibly I did not ask it so you could give me the correct answer. What has been India's commitment to the Asian Development Bank?

Mr. ZAGORIN. $93 million is its subscription.

Mr. PASSMAN. If India should be called upon to meet that commitment, she would be obligated to pay in $93 million—$46.5 million in convertible currency and $46.5 million in their local currency. There is no part of their pledge tied in to local commodities, as New Zealand and Australia have done?

Mr. ZAGORIN. They may so opt, that one-fourth of their $93 million may be so restricted.

Mr. PASSMAN. Off the record.

(Discussion off the record:)

LOANS APPROVED AS OF DECEMBER 31, 1969

Mr. PASSMAN. You state in your justifications that you have made 21 loans from ordinary capital. Furnish for the record a table listing each loan, borrower, purpose of the loan, and terms.

(The information follows:)

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES STATUS OF LOANS APPROVED AS OF DECEMBER 31, 1969

[Dollars in millions]

Country and project	Amount	Approved	Term [1]	Interest	Disbursed (percent)	Commercial bank participation
Ceylon:						
Tea factory modernization	$2.0	July 2, 1968	15(3)	6⅞	$0.40	
Walawe development project	.885	Oct. 23, 1969	15(5)	6⅞		
China, Republic of:						
North-South Freeway feasibility study	.4	Nov. 19, 1968	10(2)	6⅞	.14	
Chinese Petroleum Corp. DMT Plant	10.2	Dec. 19, 1968	12(3)	6⅞		$1.750
Deep-sea fisheries	10.0	Mar. 28, 1969	13(3)	6⅞		.500
Taiwan Aluminum Corp	2.67	Nov. 20, 1969	13(3)	6⅞		
Taiwan Metal Mining Corp	1.15	do	12(3)	6⅞		
Hualien Port	.99	Dec. 4, 1969	13(3)	6⅞		
Korea, Republic of:						
Seoul-Inchon Expressway	6.8	Sept. 3, 1968	15(3)	6⅞	4.86	.785
Korea Cold Storage Co	7.0	Mar. 13, 1969	15½(4)	6⅞	.12	.500
Korea Express Co	7.5	Sept. 4, 1969	10½(2)	6⅞		
Medium Industry Bank	10.0	Dec. 16, 1969	15(3)	[2]		
Malaysia:						
Penang State Water Supply Project	7.2	Sept. 19, 1968	20(5)	6⅞	.03	.285
Palm Oil Mills (Bukit Mendi and Bukit Goh)	2.8	Feb. 11, 1969	20(5)	6⅞		
Kuching Port Expansion	5.0	Nov. 16, 1969	25(5)	6⅞		
Sarawak Electricity Supply	3.1	Nov. 18, 1969	20(5)	6⅞		
Pakistan: Industrial Development Bank of Pakistan	10.0	Dec. 12, 1968	15(3)	[1]		
Philippines: Private Development Corp. of the Philippines	5.0	Mar. 4, 1969	[3] 12(2)	[2]	.26	
Singapore: Development Bank of Singapore, Ltd	10.0	June 26, 1969	[3] 14(2)	[2]		
Thailand:						
Industrial Finance Corp. of Thailand	5.0	Jan. 24, 1968	[3] 12(2)	[2]	3.40	
Industrial Finance Corp. of Thailand	10.0	Dec. 16, 1969	[3] 12(2)	[2]		
Total	117.695				9.21	

[1] Inclusive of grace period (shown in parenthesis).
[2] Rate prevailing at time of crediting loan account.
[3] Term commences from date of crediting loan account.

INTEREST RATE

Mr. PASSMAN. What is the prevailing interest rate?

Mr. ZAGORIN. It is 6⅞ percent on loans from ordinary capital.

Mr. PASSMAN. To all nations?

Mr. ZAGORIN. Yes, sir.

TECHNICAL ASSISTANCE

Mr. PASSMAN. Much of this Asian development capital goes for technical aid, does it not?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. This would be another spigot we would add to the several other technical aid spigots, such as AID's bilateral program, the international organizations of the U.N., the Peace Corps, and others.

What percentage of your total loans would go for technical assistance?

Mr. ZAGORIN. Of the $117 million of loans from ordinary capital?

Mr. PASSMAN. Let us put it all together or else we will confuse the readers.

Of your total disbursements, how much has been for technical assistance?

Mr. ZAGORIN. Of the total commitments to date of $139 million?

Mr. PASSMAN. For technical aid.

Mr. ZAGORIN. No, sir; those are loans. So far $400,000 is for technical assistance.

Mr. PASSMAN. Couldn't technical assistance be a loan?

Mr. ZAGORIN. Yes, sir; we do have some loans in technical assistance. In addition about $3.4 million has been committed in grants for technical assistance.

Mr. PASSMAN. So in round figures it is around $4 million for technical aid.

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. That is for the same kind of technical aid we have under our U.S. technical aid program of AID, and the U.N. technical aid programs—similar in nature to the project that we refer to as technical aid projects.

Mr. ZAGORIN. I believe so.

Mr. PASSMAN. Thank you.

Mr. ZAGORIN. Except ours is related usually in some way to preparation for projects which we might later finance.

Mr. PASSMAN. Isn't that what some of the technical aid projects are?

Mr. ZAGORIN. Yes, sir; sometimes they are.

Mr. PASSMAN. You cover the waterfront just as the other agencies do, do you not?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Thank you. I could not ask for any better answer.

I understand that in the past our AID technical assistance people and the U.N. technical assistance people used to get into arguments as to who was to do a certain project.

You have not had that experience, competing with the U.N. for projects?

Mr. ZAGORIN. No; we cooperate and do not fight about that kind of thing.

Mr. PASSMAN. You are not old enough to develop the envy and jealousy that develops between people who give money away. Let us hope you do not reach that point.

But we do have, in the same countries in which you operate, a U.S. technical aid program, do we not?

Mr. ZAGORIN. Yes, sir; in some of the countries, but we try to avoid any duplication.

Mr. PASSMAN. Name some countries where we do not.

Mr. ZAGORIN. Malaysia, we don't.

Mr. PASSMAN. Are you sure? We do have the Peace Corps in Malaysia, which is in the general area of technical assistance; is that correct?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Would you provide for the record a table showing the details of the technical assistance projects?

(The information follows:)

ASIAN DEVELOPMENT BANK—STATUS OF APPROVED TECHNICAL ASSISTANCE PROJECTS, DEC. 31, 1969

[U.S. dollars in thousands]

Country and project	Date Approved	Estimated cost	Expenditures		
			Ordinary capital	T.A. special fund	Total
Project preparation:					
Afghanistan: Small-scale irrigation	July 29, 1969	$164	$77.8	----------	$77.8
China: N-S freeway	Nov. 19, 1968	100	100.0	----------	100.0
Indonesia: Sempor Dam	Mar. 27, 1969	328	239.3	----------	239.3
Korea: Agriculture and Fishery Development Corp.[1]	Feb. 6, 1968	66	56.0	$9.7	65.7
Malaysia: Kuala Lumpur Karak Highway	Nov. 14, 1969	192	----------		
Nepal: Air transport system[1]	Nov. 21, 1968	66	54.1	----------	54.1
Philippines: Fisheries port[1]	July 25, 1968	225	153.0	36.7	189.7
Western Samoa: Faleolo Airport and road	Feb. 19, 1969	50	42.0	----------	42.0
Advisory projects:					
Ceylon:					
Ceylon Fisheries Corp	Oct. 2, 1969	165	----------		
Walawe development	Oct. 23, 1969	400	----------		
Indonesia:					
Production and distribution of food grains[1]	Aug. 30, 1967	80	39.1	9.2	48.3
Ministry of Agriculture	July 30, 1968	170	62.7	34.5	97.2
Rural credit survey[1]	July 30, 1968	60	30.1	25.7	55.8
Sawit sebarang oil palm	Oct. 21, 1969	42	----------		
Laos: Vientiane plain agriculture development	Oct. 15, 1968	221	190.8	11.7	202.5
Malaysia: Oil palm products marketing study	Sept. 23, 1969	80	25.5	----------	25.5
Nepal:					
Agricultural Development Bank[1]	Sept. 3, 1968	35	18.3	----------	18.3
Extension	May 22, 1969	69	2.9	14.0	16.9
Air transport system	Dec. 18, 1969	350	----------		
Philippines:					
Water management[1]	June 20, 1968	105	25.9	68.8	94.7
Extension	June 26, 1969	102	8.7	15.3	24.0
Thailand:					
Accelerated rural development	Sept. 23, 1969	105	3.1	----------	3.1
Nong Wai irrigated agriculture	Oct. 9, 1969	180	----------		
Vietnam: Development financing institutions	July 2, 1968	89	6.4	41.9	48.3
Total		3,444	1,135.7	267.6	1,403.3

[1] Project completed.

PENDING LOAN APPLICATIONS

Mr. PASSMAN. How many loan applications does the Bank have on hand at this time?

Mr. ZAGORIN. I do not know precisely, sir.

Mr. PASSMAN. Put it in the record.

Mr. ZAGORIN. About 25.

Mr. PASSMAN. Let us get away from that word "about." Put the exact number of applications in the record, will you?

Mr. ZAGORIN. Yes, sir.

(The information follows:)

As of January 31, 1970, the Bank had 30 loan applications under consideration.

Mr. PASSMAN. Don't you think we are entitled to direct accurate information if you have it?

Mr. ZAGORIN. It is as accurate as I can.

Mr. PASSMAN. If you can, do not use the word "about" and put the exact information in the record. You could not close the books at a bank at the end of a day and say we think we have about so much money on hand and we think the figures are about accurate. We do not operate banking institutions that way and you represent a banking institution, do you not?

Mr. ZAGORIN. Yes, sir.

COMMITMENTS FOR ORDINARY CAPITAL

Mr. PASSMAN. Mr. Director, if the Bank should fulfill all of its existing commitments today, how much capital would it have left on hand?

Mr. ZAGORIN. All of its existing commitments for ordinary capital?

Mr. PASSMAN. Let us put it all together.

Mr. ZAGORIN. $117 million, plus $22 million is $139 million as of the present time.

The paid-in capital plus reserves is about $400 million. The available special funds consist of $53 million. That is $453 million, of which $139 million have been committed.

Mr. PASSMAN. What is the grand total of your capital?

Mr. ZAGORIN. About $400 million.

Mr. PASSMAN. What is the exact amount?

Mr. ZAGORIN. The paid-in capital is $388.5 million.

Mr. PASSMAN. Thank you very much.

How much is committed of that total?

Mr. ZAGORIN. $117 million of that total, plus——

Mr. PASSMAN. Plus what?

Mr. ZAGORIN. These are commitments of $22 million of special funds.

Mr. PASSMAN. Give us the total, if you will. If you use simple arithmetic you would wind up with a certain balance.

Mr. ZAGORIN. $388.5 million.

Mr. PASSMAN. After meeting all your commitments?

My question is, after meeting all commitments, what would you have left? You have to do a little arithmetic, do you not, to give us the answer?

Mr. ZAGORIN. I am trying to, sir, and I am trying to add reserves which the Bank has also.

Mr. PASSMAN. Put it all together.

Mr. ZAGORIN. So that is $399 million, plus $53 million, or $452 million, the total available, including commitments to the Bank.

Mr. PASSMAN. That is wonderful. Let us not destroy the figure.

How much will the total disbursements amount to?

Mr. ZAGORIN. As of today the commitments for lending are $139 million.

Mr. PASSMAN. Now will you do a little arithmetic and subtract one figure from the other?

Mr. ZAGORIN. $313 million is the difference.

Mr. PASSMAN. How long has this Bank been in operation?

Mr. ZAGORIN. Three years, sir.

Mr. PASSMAN. Of course, the first year you did not disburse any funds for approved loans, other than spending funds for some fancy

entertainment and travel. But the main commitments have been in the last 2 years?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Upon this basis, if you did not get any more money at all after this year, you would have over a 4-year supply of funds, plus what you collect in repayments, if your commitments remain at the same level?

Mr. ZAGORIN. Yes, sir; but they are expected to rise.

Mr. PASSMAN. I am expecting a lot of things, too, but I am only using the facts as we find them today.

In the event that your commitment level should continue as it has for the past 2 years—not the first year because you were organizing then—and if you did not get any more money, and if you committed funds at the same level of the past 2 years, then you would have over a 4-year supply of money, in addition to any repayments?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Thank you.

INVESTMENTS IN U.S. SECURITIES AND U.S. BANKS

Would you comment on the following subject concerning the Bank's statement of income and expenses: You indicate that you received $12,372,250 from investments in 1969. How much of the Bank's funds are invested in U.S. securities?

Mr. ZAGORIN. As of the 31st of December, they amounted to $300,000. In addition to that a total of $96.2 million was invested in time deposits and certificates of deposit in U.S. banks.

Mr. PASSMAN. Wouldn't that be an investment in the United States?

Mr. ZAGORIN. Yes; but not an investment in a security.

Mr. PASSMAN. It is securities, is it not? Don't you get security when you get a certificate of deposit? I did not ask you if these funds were invested in U.S. Government bonds.

Mr. PETTY. Those are claims, Mr. Chairman, on commercial banks and not claims on the U.S. Government or Treasury. This is the distinction which Mr. Zagorin is making.

Mr. PASSMAN. At the same time——

Mr. ZAGORIN. The total investment is $96.5 million.

Mr. PASSMAN. In American banks and banking institutions.

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. What is the average term of those certificates of deposit?

Mr. ZAGORIN. In terms of maturities, sir?

Mr. PASSMAN. Yes.

Mr. ZAGORIN. As of December 31, 1969, $43.8 million was in short-term investments in the United States, that is less than 12 months; and $52.4 million was invested in time deposits or certificates of deposit longer than 1 year.

Mr. PASSMAN. Maximum.

Mr. PETTY. Longer than 1 year but not longer than 3.

Mr. PASSMAN. One to three.

Mr. PETTY. Yes.

BASIS FOR BOND ISSUE BY THE BANK IN 1969

Mr. PASSMAN. I believe you floated a $15 million bond issue in September of last year.

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. What were the terms of this bond issue?

Mr. ZAGORIN. Seven percent coupon yield.

Mr. PASSMAN. Why would it be necessary to float bonds and pay 7 percent interest on $15 million when you had approximately $100 million on hand that you did not need for immediate use and therefore you invested it in American banks and securities?

What kind of operation is that?

Mr. ZAGORIN. Because, Mr. Chairman, it is felt necessary to get the international money markets familiar with the Bank and the Bank's operations, and it is felt desirable gradually to enlarge the resources of the Bank through borrowing rather than through paid in subscriptions.

Mr. PASSMAN. You borrow money and turn around and invest it up to 3 years in bank certificates in America, is that right?

Mr. PETTY. What we are doing——

Mr. PASSMAN. What you are doing is that with almost $100 million on hand which you do not need for immediate use, you are using that money and buying certificates of deposit in the United States.

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. But then you turn around and float a bond issue for $15 million.

Mr. ZAGORIN. That is right.

Mr. PASSMAN. If that makes sense, I do not have the capacity to comprehend it.

Dr. Long?

YIELD ON INVESTMENTS

Mr. LONG. I think the chairman has made a very good point.

I would like to know the answer to that. Why do you not invest it in those things that would give you the greatest yield?

As I gather, you can get almost 8 percent on Treasury bills and you have very little money in Treasury bills; you have a lot in time deposits on which you get a relatively small yield.

On the surface it looks as if your money management is not very good. Perhaps you have an explanation for that.

Mr. ZAGORIN. The explanation is that the yield in the past year on certificates of deposit have been very high.

Mr. LONG. What rate?

Mr. ZAGORIN. Nine and 10 percent.

Mr. LONG. They have been that high?

Mr. ZAGORIN. Yes, sir.

Mr. LONG. Where do you get those?

Mr. ZAGORIN. New York banks and banks all over the country. We have many banks.

Mr. LONG. Then that clears it up.

Mr. ZAGORIN. I would like to answer the other question, if I may Mr. Chairman.

The Asian Development Bank is modeled pretty much on the World Bank, and a gradual approach toward the international money markets is necessary, and for us to tap the private money markets in future years it is necessary to get started.

There was a good opportunity in 1969 because of the funds which flowed to Germany to tap the German market. So we utilized that opportunity and borrowed $15 million in September last year.

Mr. LONG. I have one more question.

Are you gaining or losing money by floating capital securities and then turning around and investing the proceeds?

Mr. ZAGORIN. I believe, sir, in that particular case it cost us more than we are getting from our immediate investment in securities and in deposits in Germany, but the margin is not very great.

Mr. PETTY. That is in the short run. Since then the German mark has been revalued and we get the benefit of the additional purchasing power of the mark.

I would like to add that regulation Q has an exception under the regulation which permits foreign monetary authorities and certain international institutions such as the Asian Development Bank and World Bank to make investments above regulation Q which would explain this.

Mr. LONG. I am not arguing you have the authority to do it. I question the management. I also question the morality of it.

We are having a hard time getting money out of the taxpayer. Why should the taxpayer be subsidizing an operation whereby you borrow at higher rates than you get on your investment just because of this notion that you are building up a line of credit or something, if that is what you meant? I do not think that makes sense to me.

Mr. PETTY. I think we are building up a history of the Asian Development Bank building up its paid-in capital under an international arrangement. Now we are beginning to tap the private market.

Mr. LONG. That sound tenuous to me.

Mr. PETTY. It is demonstrable in the World Bank.

Mr. LONG. Maybe it is, maybe it is not.

It is not convincing to me at all. I would say anything these days in which the U.S. taxpayer is being forced to pay one cent more than he has to do on this foreign aid business has got to require a better explanation than that.

That is my opinion.

Mr. PETTY. We get the multiplier effect of the other countries. For every dollar the United States puts up there are $4 additional from others.

Mr. PASSMAN. If you have $100 million on hand that you do not need, it doesn't make sense to me to go out and borrow $15 million that you don't need.

Mr. LONG. I agree with the Chairman. I think it is ridiculous.

Mr. PASSMAN. It doesn't make sense. I say this respectfully that it is simply ridiculous how loosely we permit you people to operate. Let us get down to some percentages.

Mr. SHRIVER. When did you issue the bonds?

Mr. ZAGORIN. In September, 1969.

Mr. SHRIVER. When you appeared before this committee last year, you did not contemplate doing that according to testimony as I read it on page 312 of last year's hearings.

Mr. PETTY. If I am not mistaken, that is with reference to borrowing in the United States and this borrowing was in Germany.

Mr. PASSMAN. They got to you, didn't they. They are astute business people and bankers, and somebody sold you a bill of goods.

Mr. PETTY. Not at all, we encouraged them to borrow in foreign capital markets to relieve the call on the American taxpayers in generating their funds for their lending operation.

Mr. PASSMAN. It doesn't make sense to have $100 million on hand that you don't need, which you are trying to get people to borrow from you at the highest rate of interest you can find. Then you turn around during the same period of time and borrow an additional $15 million that you don't need on which you will have to pay interest of 7 percent. It just does not make sense to me.

APPLICATIONS FOR LOANS RECEIVED AND APPROVED

What number of loan applications did you process last year? What was the total amount of applications received and approved for subsequent disbursement in 1969?

Mr. ZAGORIN. The number of——

Mr. PASSMAN. No, not the number. The aggregate dollar amount of applications received and approved in 1969.

Mr. ZAGORIN. $98 million.

Mr. PASSMAN. $98 million?

Mr. ZAGORIN. Yes, sir; of loans.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. You spent $5,652,598 just for the administrative expenses, did you not?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. What percentage is that of the total?

Mr. ZAGORIN. The commitment of funds——

Mr. PASSMAN. No, what percentage is $5,652,000 of the $98 million. It is about 5 percent, is it, in round figures?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. What was your gross income for the year?

Mr. ZAGORIN. $12.94 million.

Mr. PASSMAN. And your administrative expense was $5,652,598?

Mr. ZAGORIN. Yes, sir.

RELATION OF ADMINISTRATIVE EXPENSE TO PROFIT

Mr. PASSMAN. Your administrative expense represented about 40 percent of your profits?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. I believe the Export-Import Bank is also a lending agency; is it not?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Will you have a look at their record? They have, I think, about a $2 billion lending program.

Mr. PETTY. On a capital net worth of the Export-Import Bank of $2.2 billion.

Mr. PASSMAN. I am talking about processed applications and profits. Have a look at their profit and what a small percentage of their total profit the Bank spent for administrative expense.

Will you do that, Mr. Director?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. You have a shock coming.

(Discussion off the record.)

BORROWINGS FROM OTHER COUNTRIES

Mr. MCFALL. I would like to have your banker's explanation, please, of this financing that you are doing. I can understand how you would want to borrw money when it is available in Europe at a propitious time where you might get it at a low interest rate, or something of this nature. I can understand it might be pretty good business. If you could borrow all the funds you need and loan them and make money, we have a good thing going here. What is the reason for this borrowing money when you don't need it, and then you lose money because you pay more interest for it than you are getting on the funds you have on hand. I don't understand it, but this is the way it seems to come out.

Mr. ZAGORIN. May I try to answer that?

While we processed 19 loans and we approved 16 technical assistance projects in 1969, that will be doubled in 1970.

Mr. MCFALL. Nineteen loans for what?

Mr. ZAGORIN. Nineteen loans for $98 million. Technical assistance approvals for another $3 million.

Mr. MCFALL. The technical assistance approvals, are they loans?

Mr. ZAGORIN. No; they are grants for the most part.

Mr. MCFALL. You get that money from your profit?

Mr. ZAGORIN. Yes, sir.

Mr. MCFALL. You utilize this?

Mr. ZAGORIN. Yes, sir; we anticipate, while we have $98 million of approvals for loans in 1969, the anticipation is that about $200 million—and I have to use that term, it is a forecast—about $200 million will be committed in 1970.

Mr. MCFALL. About double what you are doing now.

Mr. ZAGORIN. Yes.

If we continue on that trend, we run out of money because the last installment comes in this year—this is the last payment on the subscription for the United States.

Mr. PASSMAN. Why don't you borrow the money when you need it and not when you do not need it?

Mr. PETTY. Of the total U.S. capital contribution of $200 million, only 25 percent, or $50 million, is paid in cash immediately. The balance is paid in a letter of credit which is drawn in advance.

Mr. PASSMAN. It follows nevertheless that you had about $96 million on hand that you did not need and you had to look for a place to invest it. While you were looking for a place to invest the $96 million, you went to Germany and borrowed $15 million.

Mr. PETTY. It would be $50 million.

Mr. PASSMAN. I said $96 million.

Mr. McFall. Let me finish, Mr. Chairman, and get this explanation in the record at one place.

You were saying that next year you will have a double operation approximately.

Mr. Zagorin. That is right, sir.

Mr. McFall. So what you are doing, then, is that you are anticipating an expansion of your lending operation and borrowing money to take care of that expansion.

Mr. Zagorin. Partly, because if we look to the year following we will have used pretty much in terms of commitments our paid-in resources. So we have to get started on our borrowing at some point in time.

We started slowly in 1969. We will probably do one or two loan borrowings in 1970.

That means into 1971 when we will get no further capital subscription payment we have to replenish our resources through borrowing and we have to get ready. It may be true that it is done at some cost to get ready, and I acknowledge that freely. But the point is that you have to pay for the entry, so to speak, to get going. This is what we are doing.

Mr. McFall. Over perhaps a 2-year term you would actually make money on this kind of an operation.

Mr. Zagorin. I should think so, sir.

Mr. McFall. Is that a complete explanation, then, of what you are trying to do?

Mr. Zagorin. Yes, sir; it is.

I think you are right in saying you have to look at this as more than a singular instance. It is a borrowing program over 2 or 3 years which we are just getting started on.

Mr. Petty. Chairman Martin said to President Truman when he was being appointed to the Federal Reserve Board, "Mr. President, the markets wait for no man." We found last year the advantages when the bond market particularly in Germany was open to borrowers to go in and borrow and establish a name, a small amount of $15 or $16 million.

Mr. Passman. What interest rate do you pay on these bonds you issued?

Mr. Petty. Seven percent.

Mr. Passman. We could have paid you more in the United States. Last year we borrowed money from about 41 nations. We had some very unpleasant incidents insisting that nations make us loans. We borrowed $100 million from Thailand. We wanted a quarter of a billion but they would not give it to us. We had the black satchel man out getting the money. As far as I am concerned, you have a bad operation. I am going to prove it to you. Let us look at Export-Import Bank.

Their net income for fiscal 1971 is estimated at $120,878,000, and their overhead is estimated to be $6,613,000. That is approximately 5 percent of their profits. Is that about the way that figures out?

Mr. Betts. Yes, sir.

Mr. Petty. Yes, sir; on the basis of those numbers.

Mr. Passman. These numbers are correct. I am reading from the President's budget. You have a profit of $12,979,813 and you spent

$5,652,598 for administrative expense, which is approximately 40 percent.

Mr. PETTY. I think the figures for the Export-Import Bank demonstrate the advantage of a mature bank in existence for 30 or 40 years.

Mr. PASSMAN. Why don't you recruit some men from them. You know and I know many of the contributors to this Asian Bank are contributing money we gave them under our aid program.

The record shows we contributed only this amount, which I say is inaccurate. A lot of the nations would not be able to contribute to the Asian Bank if we did not have a fantastically high foreign aid program going into those nations.

We will take a brief break to answer the roll call.

(Recess.)

ADB INVESTMENTS IN OTHER COUNTRIES

Mr. PASSMAN. The committee will come to order. I believe you said the Bank had $96 million of investments in the United States. Did you make any investments in other countries?

Mr. ZAGORIN. Yes, sir; there are investments in other countries.

Mr. PASSMAN. What countries and how much?

Mr. ZAGORIN. I will have to get that, Mr. Chairman, but the investments so far are in Japan, Australia, the United Kingdom, as the major other places. Then there are a number of investments in other convertible currency countries.

(The information follows:)

Asian Development Bank investments in securities and time deposits by currency of investment, as of December 31, 1969

Australia	$20,921,312
Austria	2,138,404
Belgium	976,980
Canada	4,804,349
Denmark	1,009,533
Federal Republic of Germany	26,537,376
Hong Kong	508,200
Italy	8,131,852
Japan	39,234,184
Malaysia	980,001
Netherlands	2,230,109
Norway	1,949,876
Singapore	245,000
Sweden	894,437
Switzerland	1,468,197
United Kingdom	9,300,982
United States	104,446,454
Total	225,777,246

Mr. PASSMAN. We are the largest contributor, percentagewise, in all accounts to the Asian Development Bank, are we not?

Mr. ZAGORIN. We and Japan have an equal amount of contribution.

Mr. PASSMAN. You are familiar with the fact that last year so as to improve our balance-of-payments situation we were borrowing all the money we could from all the nations we could find with a surplus in their foreign exchange account?

Mr. PETTY. That was a program pursued by the Treasury before January 1970, Mr. Chairman.

Mr. PASSMAN. Of course, you are familiar with the very fact that President Nixon recognized the follow-on of this thing and killed that program the first week he was in office, did he not?

Mr. PETTY. Yes.

PURCHASE OF U.S. SECURITIES IN 1968

Mr. PASSMAN. I believe in 1968, if I remember correctly, you bought U.S. securities. Didn't you testify to that fact?

Mr. PETTY. Yes.

Mr. PASSMAN. How much?

Mr. PETTY. We had issued U.S. securities.

Mr. PASSMAN. You purchased U.S. securities out of your surplus account in 1968. Do you remember the amount?

Mr. HIRSCHTRITT. You mean the Asian Development Bank?

Mr. PASSMAN. Yes. How much U.S. securities did you buy?

Mr. ZAGORIN. At December 31, 1968, we had $632,000 of Treasury bills.

Mr. PASSMAN. Give me the total, gentlemen. I am not interested in breaking this into bits and pieces.

Mr. ZAGORIN. $78 million.

Mr. PASSMAN. $78 million in U.S. securities.

Mr. ZAGORIN. Including time deposits in U.S. banks; yes, sir.

Mr. PASSMAN. We were borrowing money from the American taxpayer to give to the Asian Development Bank.

Then the Bank turned around and took the money that we gave it and loaned it back to the United States at the going rate of interest, is that correct?

Mr. HIRSCHTRITT. Sir, are you referring to U.S. Government securities.

Mr. PASSMAN. Yes, sir.

Let us go to the record. Gentlemen, this is your children and grandchildren's problems that we are confronted with.

We were borrowing money from the American taxpayers at the going interest rate to give the Asian Development Bank.

During that same time the Asian Development Bank was making a loan to the United States in the amount of $78 million at the going rate of interest, is that correct?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. This $15 million that you borrowed in Germany, did you offer any part of those bonds to U.S. investors?

Mr. ZAGORIN. No, sir.

INCREASE IN ADMINISTRATIVE EXPENSE

Mr. PASSMAN. Your administrative expense has increased over calendar year 1968 by $2 million. What was the increase in business, percentagewise, during the same period?

Mr. ZAGORIN. More than double.

Mr. PASSMAN. That does not necessitate increasing your administrative expense by 40 percent, does it? The increase mainly is in additional personnel, is it not?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. What percent of your administrative budget goes for personnel?

Place that in the record.

(The information follows:)

Seventy percent of the Bank's total disbursements in 1969 for administrative expenses went for personnel, including salaries, benefits (retirement, insurance, etc.), travel, representation and consultant fees.

REPRESENTATION ALLOWANCE

Mr. PASSMAN. You recall 2 years ago we ran into some extremely luscious expense accounts. They were what we call superdupers. Everybody was getting in on it.

What do you have budgeted for representation allowance this year?

Mr. BETTS. That data is on a table in the justifications.

Mr. PASSMAN. I am talking about 3 years ago when we first started examining on this appropriation estimate.

Mr. ZAGORIN. I can give you information on that.

Mr. PASSMAN. There was a breakdown on it that was rather fantastic and a bit frightening. Last year you said the board of directors pay their own representation allowance. If I recall correctly, there was a rather large sum that you permitted them to spend on entertainment and representation allowance during the year in which the Bank did not disburse even a dollar. If we may compare 1968 with 1969, your representation allowance jumped from $24,754 to $44,849. That is almost double; is it not?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Why was that increase necessary?

Mr. ZAGORIN. Because more than half of the $44,000 is special representation for the office of the presidency and for official receptions and so forth, when there are conferences convened by the Bank. These were increased in 1969 over 1968.

Mr. PASSMAN. Almost double.

Mr. ZAGORIN. Yes, there were many more conferences we held.

Mr. PASSMAN. You must have had an awful lot of conferences.

Mr. ZAGORIN. The total cost of $44,000 includes $20,000, approximately, for the office of the presidency, which is for this sort of hospitality for conferences.

Mr. PASSMAN. He is really living high on the hog; is he not? Let us look at the Export-Import Bank—a $3 billion program last year—do you know what they spent for representation allowance? $12,000.

Have a look at the record, gentlemen. Yet you call yourself bankers. Don't get bored now, because it is your grandchildren I am trying to protect. We are one of the largest contributors to start with. Then when you add our indirect contribution, or the contributions made by some of the countries like India that they could not make if we did not have an AID pipeline pouring our wealth into that country at the rate of half a billion dollars a year, they could not be members.

So I say we are picking up their tab and there could be a lot of other nations in that same category.

Mr. ZAGORIN. We included a lot of the official conferences hosted by the President.

Mr. PASSMAN. Aren't these people coming to you to borrow money? These people need money. Why in the name of goodness do you have to entertain some person that is coming into Manila hoping that he can get a loan and is willing to accept it on your terms and catch the same plane back that night?

Why do you have to host them and feed them caviar, pink champagne, and fillets?

Why do you have to do that? Do you people have to wine and dine them to get them to take the money they are coming in begging for?

Mr. PETTY. I think it is frugal use of the bank's money, sir. It is a natural expenditure to support their lending operations. It is perfectly appropriate when a foreign minister even of a donor country goes to Manila and visits the President of the Bank that the Bank has a luncheon for him; just as when the chief of state comes to the United States, we give a reception to this country.

Mr. PASSMAN. Chiefs of state do not go to Manila for a loan. You and I know that somebody on the totem pole, maybe the finance minister, gets off the plane shaking because he is afraid you will not approve the loan. You should have a conference with him and if he has a good application, accept it and get him on the return plane. We will have to borrow this money that we are going to give to the Bank.

Mr. ZAGORIN. The increase is only $5,000 from 1969 to 1970 despite the fact that we expect to double our business. I think we are being frugal.

Mr. PASSMAN. It should have been decreased. Why don't you look at the Export-Import Bank with its $121 million profit, operating on an overhead of 4 percent of profits, and you spend about 40 percent. You people have 5 percent of the total number of dollars involved in loans and you have twice the representation allowance. Off the record.

(Discussion off the record.)

REGIONAL TRANSPORT SURVEY

Mr. PASSMAN. Mr. Director, would you furnish some information on the item entitled "Regional Transport Survey" and also the Asian agriculture survey followup seminars, which appear to be funded for the first time this year.

Mr. ZAGORIN. Yes, sir; I can supply you with documents on that and further information for the record.

(The information follows:)

REGIONAL SEMINAR ON AGRICULTURE

One of the early activities of the Bank was an Asian agricultural survey which was completed in 1968. This survey was a comprehensive study of the needs, problems, opportunities and priorities for agricultural development in Asia.

As a followup to the survey the Bank held a regional agricultural seminar in April 1969 at the time of its second annual meeting at Sydney, Australia. The seminar, which was attended by Asian and other senior agricultural experts, was designed to explore the possibilities for the application of the findings of the survey in the countries in the region to promote their agricultural development. Representatives of the developing countries of the region reported on the

current trends and prospects for agricultural development in their respective countries. Six leading agricultural experts presented papers on special topics: The policy implications of the survey, agricultural productivity, institutional aspects of agricultural growth, the pattern and potential of Asian agricultural trade, ADB operations in the field of agriculture, infrastructure and input requirements, and the role of international assistance in Asian agricultural development. During the discussions attention was directed not only to the issues addressed in the survey, but also to problems currently faced by the member countries which were not dealt with in detail in the survey. These included export trade policy, product marketing and market development, technology for small farms, technology for nonirrigable areas, farm and off-farm employment for expanding populations, and the coordination of regional production policies.

Copies of the Asian agricultural survey and of the papers and proceedings of the regional seminar on agriculture are being furnished to the committee.

REGIONAL TRANSPORT SURVEY

In response to a request by a number of Southeast Asian countries the Bank has undertaken to conduct a regional transport survey in Indonesia, Laos, Malasia, the Philippines, Singapore, Thailand, and the Republic of Vietnam. Work on the survey began in October 1969 by Arthur D. Little, Inc., the consulting firm engaged by the Bank for this purpose.

The survey is to be a comprehensive study of all modes of transport in the region for the purpose of formulating recommendations for an investment program for regional transport projects. It is to be carried out in two stages: First, the preparation of an inception report spelling out the precise tasks involved and the depth to which various studies are to be carried out. Finally, the substantive work is to be conducted in light of decisions based on the inception report. The consultants have now completed the inception report and submitted it to the Bank.

A copy of the inception report on the Southeast Asian regional transport survey is being furnished to the committee.

OTHER SOURCES OF INCOME TO THE BANK

Mr. PASSMAN. You have listed $96,457 of "Income from other sources." What are the other sources?

Mr. ZAGORIN. $14,000 of that was interest on demand accounts rather than time deposits or certificates of deposits. $33,000 was interest and repayments on loans to the staff who come to Manila and have the necessity of borrowing to get settled (these loans are repaid over a period of 1 year or a year and a half). Nearly $50,000—just a little over half of it—was attributable to a net profit on foreign exchange transactions, which we benefited from in 1969. We handle all of our currency at the par values as they are put into the bank on subscriptions. Sometimes we may conduct transactions in which we get the benefit of somewhat better than par.

We were fortunate enough to earn $49,000 in that way last year. That is the total $96,000.

INTEREST EARNED ON LOANS

Mr. PASSMAN. What is the total amount of interest you received on your loans in 1969?

Mr. ZAGORIN. Interest income from loans?

Mr. PASSMAN. From loans to recipient nations.

Mr. ZAGORIN. I will have to put that in the record.

Mr. PASSMAN. You have an assistant that may have it.

Mr. ZAGORIN. $237,000 from loan operations.

Mr. PETTY. In addition there were commitments——

Mr. PASSMAN. Just a minute, let me get this the way I would like to have it. What was the total amount of interest received?

Mr. ZAGORIN. In our income column we received $237,000 in interest and $40,000 in commissions. The commission is the 1 percent which is required to be put into the special reserve.

Mr. PASSMAN. You are going too far. I didn't ask you about commissions. I asked you about interest. You received $237,550 gross interest on the loan account. How much of that came from loans you had made to recipient nations?

Mr. ZAGORIN. All of that, sir.

Mr. PASSMAN. Then where do I find the interest that you received on your investment in the United States?

Mr. ZAGORIN. From investments in the previous line, $12,372,000.

Mr. PETTY. In United States and other countries.

Mr. PASSMAN. You received $12,372,250 interest from your investments wherever they may have been made.

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. But you received less than a quarter of a million dollars interest on loans you had made?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. It looks as if you set up an organization in Asia, not to make loans to these developing nations, but to make investments all over the world wherever you can get a high return.

Then you received less than 2 percent of your total interest from recipients of loans; did you not?

Mr. ZAGORIN. That is because, sir——

Mr. PASSMAN. I did not ask you the cause. I want to know the answer so that I can get this down in my mind as to what you people are doing. It looks to me as if you are greatly overfinanced, if the operation is to function as the Congress thought was intended.

Mr. PETTY. It is approximately 2 percent.

Mr. PASSMAN. That is good.

Mr. PETTY. That bears the same relationships as the disbursals under loans to total commitments to lenders.

Mr. PASSMAN. Then why didn't you ask for $5 million a year for 5 years and keep it about where it should have been.

You have a big fat bonanza going on out there. I think we should amend the law. We should make a recommendation that any excess you have should be returned to the donor nation. Then they could send it back to you when you actually have need for it. You could set up machinery where within 1 week by dispatch that could be handled. What you should do is request that the law be amended, so that each donor could withhold from all of these accounts its pro rata share of capital that you have in excess and then work out some quick way to dispatch it to you when you need it, even though you might have to set up a bank account in the capital city of each of these nations.

It is not right for this Congress to pass laws to permit the Treasury to borrow this money from the overburdened American taxpayer and have to pay interest, and then give it to you people to invest it in other nations and get a high return. At least you could return to the United States, the 20 percent we advanced.

Mr. PETTY. Mr. Chairman, I believe the U.S. taxpayer has been well served.

Mr. PASSMAN. That is your opinion, not mine.

Mr. PETTY. It is now providing the base to borrow additional funds in the private market. I think this shows what multilateral cooperation can generate.

Mr. PASSMAN. That is one of your strange ideological definitions.

I have a greatly different idea. You have a right to your views. You people are trained to give away money.

I wonder if you agree with me that this is the President's program?

Mr. PETTY. Yes.

Mr. PASSMAN. We are in complete accord this is the President's program?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. I think we have a nation of 204 million people, and we have some type of representation in about 121 nations of the world with ambassadors and other foreign service personnel.

Mr. PETTY. Yes, sir.

Mr. PASSMAN. I think we have about 6 million people on the U.S. Government payrolls, either military or civilian. Isn't that about right?

Mr. PETTY. I defer to your knowledge.

Mr. PASSMAN. Does that sound about right?

Mr. PETTY. I believe so, yes.

Mr. PASSMAN. I believe we have 2,868 different Federal agencies, departments, boards, commissions, and so on, do we not?

Mr. PETTY. There are very many.

Mr. PASSMAN. Let us look at a little corner filling station with two pumps and three attendants. They grease automobiles, wash cars, and fill up the tanks with gasoline. Do you realize that at least 40 percent of all the decisions made as to how that one little filling station operates is made by the subordinates and not by the owner? You could understand that; could you not?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. You people say this is the President's program. Do you realize it would take 1,293 men to perform all the functions done in the name of the President?

The President does not know any more about this program than I do about surgery. You said it was the President's program. It is not his program, any more than it is mine. We have a fine President. We established that in the filling station 40 percent of the decisions made are made by the three attendants, not the owner. Contrast that with the operations of this big Federal Government of ours.

Mr. PETTY. I thought you were demonstrating the effectiveness of the teamwork.

Mr. PASSMAN. You call this a part of the President's program. He doesn't know any more about it than I do about surgery. I am trying to establish this is the bureaucrats' program and they use the President's name in a blanket general statement.

Mr. PETTY. I think the President was in Manila last summer.

Mr. PASSMAN. And so was I several years ago. I am saying the President cannot get on top of all these programs and you know he

can't. It is impossible for even the AID Director to put his finger on over 5 percent of what is going on. I just wanted to be sure that we understand this is the President's program in name only, because it would take 1,293 men to do what is issued in the name of the President.

TRUE PUBLIC DEBT

Let us accept this for what it is. It is the result of a bunch of dedicated bureaucrats, very patriotic, but who do not believe that this money had to be paid back someday. We have a true public debt—when we take the borrowed money and the statutory obligations—of $1,701,000,000,000. Do you realize that many of our people think of our public debt as being $371 billion.

That is insignificant compared to our actual debt. There were 115 statutes last year, and you have 121 now, that say we will give you this in future years for some service you previously rendered. We created no reserves for these statutes. I do not know how much longer we can meet these legal commitments without wrecking the economy of this country. Interest on the public debt, for example, is pushing $20 billion now; is it not?

Mr. BETTS. It is about $19 billion this year.

Mr. PASSMAN. It is topping 19; isn't it?

Mr. BETTS. Not yet.

This year it is expected to be right at $19 billion.

Mr. PASSMAN. Interest on the public debt costs about $52 million a day. It costs $8 billion a year to meet our commitments to veterans. We created no reserves to finance the programs for veterans. It comes out of the current revenues.

Pay of retired military personnel—no reserves. They did not put up anything. Neither did the Congress, and it comes out of current revenues. That has topped three and a half billion dollars this year.

You put up your share for your civil service retirement, the Government does not, it puts it on the cuff. That account is $62 billion in the red.

Now let us check to see how involved this is. The Civil War officially ended 104 years ago. Do you know we are stilling mailing out over a thousand checks a month to Civil War veterans?

Yet we are building up these commitments. It is time that some of us, even at the expense of irritating people, point out some of these things. If you take your true public debt, borrowed money and statutory obligations, each and every one of the 204 million Americans, whether it is the old man who will reach 100 tomorrow or the baby born this morning, owes his Government $8,338. It is just as much an obligation as to send out these checks on these statutory obligations as it is for my good friend to send out the checks on U.S. bonds.

I wish I had the ability to establish these facts calmly and to get you people to look at these involvements we have gotten ourselves into. I am not talking about railroad retirement or social security. I am talking about pure statutes where there is no income past or present to fund them. It causes me some concern. Off the record.

(Discussion off the record.)

Mr. HIRSCHTRITT. I think it is less expensive for the United States to share these costs with all the other countries as we do in this case where we put up only a fifth of the total.

Mr. PASSMAN. That is like saying you are already drunk and I am getting drunk. You have two quarts of bourbon and if you let me drink them, then you won't get quite as drunk as I will. You are assuming it is our responsibility to take care of everybody all over the world.

Mr. HIRSCHTRITT. No.

Mr. PASSMAN. Certainly it would cost more money if we put it all up. I want to show you something that you may not have looked at. I think I have made the case, but I wish I had time to develop it further, that these other countries may not be putting up anything.

We have fantastically high aid programs in some of these countries. It may be our money they are plowing back into the Asian Bank. We have given since July 1, 1945, $182.5 billion, and we have to add one more year's program to that figure. The net amount that went to 121 nations and territories of the world after the little pittance of paybacks, including those of the Export-Import Bank, is $122 billion. Where did you ever get the idea that it is our responsibility to go out and train other people how to give their money away? You better think about America's part. These are not my figures. We have gone absolutely wild with this aid program. We got this program into 121 nations and we will be disbursing funds in 99 countries this year.

Mr. HIRSCHTRITT. I have it on top of my desk and I read it yesterday.

Mr. PASSMAN. This is an international organization. Do we accept it that way?

Mr. ZAGORIN. Yes, sir; it is an international organization.

Mr. PASSMAN. Does the Bank maintain an office in Washington?

Mr. ZAGORIN. No, sir.

U.S. CITIZENS EMPLOYED BY THE BANK

Mr. PASSMAN. How many employees do we have associated with the organization? I am referring to U.S. citizens.

Mr. ZAGORIN. Eleven professionals.

Mr. PASSMAN. I am not interested in the number of professionals. I am interested in the total.

Mr. ZAGORIN. Eleven.

Mr. PASSMAN. Would you place in the record their annual salaries?

Mr. ZAGORIN. Each person's?

Mr. PASSMAN. Surely.

Mr. ZAGORIN. Mr. Chairman, I am not sure I can get that.

Mr. PASSMAN. You have 11 American employees and you mean to tell me you cannot find out what their salaries are?

Mr. ZAGORIN. It is not a question of getting it. It is a question of putting it in the public record.

Mr. PASSMAN. Why not?

Mr. ZAGORIN. Because this is information that management feels should not——

Mr. PASSMAN. You give it to me. Am I entitled to this information as chairman of this committee?

Mr. PETTY. We submitted some information last year.

Mr. PASSMAN. You did not answer my question. Am I entitled to this information as chairman of this committee, or is this committee entitled to that information?

Mr. PETTY. We have the responsibility——

Mr. PASSMAN. I did not ask you what responsibility you have.

Gentlemen, you are going to answer my question. Is this committee, which is cleared for top secret information, entitled to know what the 11 U.S. employees receive in annual compensation? We are, or are not.

Mr. PETTY. I think as a total figure, Mr. Chairman——

Mr. PASSMAN. I am not talking about the total figure. I want to know if this committee, which is cleared for all types of information, is entitled to know the annual salary of each one of these 11 Americans?

Mr. PETTY. On the confidential basis, Mr. Chairman?

Mr. PASSMAN. For whatever basis this committee should decide in its wisdom. You are not going to put words in my mouth or you won't get a nickel this year. I will tell you that now. You will not browbeat this committee. I would like this information.

I mean that just as plainly as I can make it. This committee must know how much money you are paying these 11 Americans. This committee, which is representative of 204 million Americans, is entitled to know this information.

(The information follows:)

STAFF MEMBERS AND SALARY PER ANNUM

The salaries of the 11 U.S. citizens who were members of the ADB staff as of December 31, 1969, fall within the following salary categories:

General Counsel, $22,000–$28,000;

Chief Economist, Project Manager, $17,000–$24,000;

Operations Officers (2), Financial Analyst, Economist, Treasury Officer, Assistant to the President, $13,000–$20,000;

Officer, Administration Department, Editor, $6,000–$16,000.

TAX EXEMPTION FOR U.S. EMPLOYEES

Mr. PASSMAN. Are the Americans connected with this Bank exempt from the U.S. income tax?

Mr. ZAGORIN. May I answer that question?

Mr. PASSMAN. Yes.

Mr. ZAGORIN. They are subject to U.S. income tax, the 11 professionals are subject to U.S. taxes, but I believe they may be exempted as nonresidents of the United States.

Mr. PASSMAN. That is the point I am trying to make. They are Americans.

Mr. ZAGORIN. They do not reside in the United States.

Mr. PASSMAN. If they are domiciled abroad, then for tax purposes they are exempt?

Mr. ZAGORIN. If they earn below $20,000 a year. Those who earn more than $20,000 a year have to pay taxes on that difference.

Mr. PASSMAN. The excess?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. For all practical purposes, just for the record, all of these employees are exempt from income taxes on the first $20,000 of their salary?

Mr. ZAGORIN. If they are eligible under the residency requirement.

Mr. PASSMAN. Mr. Director, I want to know whether in 1969 the 11 employees paid U.S. income taxes on any part of the first $20,000. That would be easy to get.

Mr. PETTY. I think the provisions of the tax laws pertain to any American living abroad whether they work for the Asian Development Bank or not.

Mr. PASSMAN. Do they pay an income tax to the nation where they are domiciled?

Mr. ZAGORIN. No, sir. May I try to explain, Mr. Chairman?

Mr. PASSMAN. Surely.

Mr. ZAGORIN. Some of these employees entered the employment of the Bank in 1969 in which case they may have paid U.S. income tax.

Mr. PASSMAN. I am talking about today's policy. All you have to do is give me the facts.

Mr. ZAGORIN. They have to be abroad for a period of 18 months.

Mr. PASSMAN. Then the question will be this: All of those employees who were abroad 18 months as of December 31, 1969, whether or not they paid any income tax.

All 11 of these employees are abroad?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. If they remain abroad for 18 months, then the first $20,000 of their salary is tax-exempt.

Mr. ZAGORIN. That is my understanding of the tax law.

Mr. PASSMAN. They are also tax-exempt from the nation where they are domiciled?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. I am not quarreling with the policy because it is the policy of our Government. You have similar employees domiciled here in Washington. They pay no income tax. There may be two sisters, one working for IBM and one working for IDA, both making the same salary, one sister may pay 35 percent in income taxes and the one working at IDA does not pay a dime. I am not quarreling, because it is the policy.

LOANS TO STAFF MEMBERS

Are you making any loans to your staff members?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Could you furnish for the record the amount of each loan? Make it all inclusive, when you say staff members, you are talking about all nations. We want to know the amount of loans you made to your staff members, the amount, and the rate of interest during calendar year 1969.

Mr. ZAGORIN. Mr. Chairman, I cannot give it to you by name, nor the specific loan.

Mr. PASSMAN. Why can't you?

Mr. ZAGORIN. Because the President of the Bank will not disclose that information to me for this purpose.

Mr. PASSMAN. What if you did not get any more money? Let me say this to you. You are telling me that the President of the Bank to which we have pledged $200 million, will not permit this committee,

which must make the recommendations for additional appropriations of tens of millions of dollars, to have the names of the staff members who borrowed money from the organization, the amount, and the rate of interest?

Mr. ZAGORIN. The specific persons, no, I do not believe, because it is considered confidential information of a personal nature.

Mr. PASSMAN. I want to see a copy of your charter. That is what we are going to go by.

We want to know upon what basis this committee is being denied information. It is because we might find out that some of these employees are borrowing money to open up factories? Do you get the point? Also, I want you to cite the authority upon which these loans are made.

Gentlemen, this is not personal. We know we are irritating and we do not like to be, but you have a loose operation. It has started off loose. It is only 3 years old. It might be that in some way we will make a small contribution to its success. Who is the President of the Bank?

Mr. ZAGORIN. Mr. Watanabe.

Mr. PASSMAN. Where is he from?

Mr. ZAGORIN. From Japan.

Mr. PASSMAN. Do all the foreign staff members borrow money from the Bank?

Mr. ZAGORIN. I do not know who is borrowing money, sir.

Mr. PASSMAN. You are an American. Let us be fair with each other about this. You have set up an organization to which my country and your country is giving $200 million, and we have found most of your income is coming from investments rather than from loans to underdeveloped nations or the individuals in those nations. Then we find you have a policy where staff members of the Bank can borrow money, and you now indicate that this committee cannot know the names of the individuals borrowing this money, the amount, or the rate of interest. You know and I know that that is a conflict of interest.

Let me make the point. I was in the hotel and restaurant supply business prior to my election to Congress, and my company had sold the U.S. Government some refrigerating units. We were the sole distributor in the area. One of the coils sprung a leak after I was in Congress and my nephew, who was manager of the company called me. He said, "the coil in the steamer went out and the unit lost its methyl chloride. You told me not to accept any orders from the U.S. Government. I want to know whether or not since they are losing food, if I can sell them this coil."

I checked with legal counsel and was told it would be a violation of law to sell them a refrigeration coil. I could have been prosecuted for a conflict of interest. Yet you tell me you have a bank where the staff members can borrow money. We do not know how much, for what purpose, and what the rate of interest is.

For all you know, those employees could wind up in the manufacturing business in Manila.

Mr. ZAGORIN. We do know.

Mr. PASSMAN. Then give us the information.

Mr. ZAGORIN. I can give it to you right now.

It is borrowed specifically for the purpose of giving a person a loan on arrival in Manila. It is given up to the limit of one-fourth of the annual salary, repayable at 18 months and at 5 percent per annum interest. Also, there are loans in special cases which are repayable over 12 months at 6 percent per annum interest.

Mr. PASSMAN. If he gets $24,000 a year, he can borrow $6,000 without security on a plain note, is that right?

Mr. ZAGORIN. It is repaid out of his salary.

Mr. PASSMAN. I said he borrows it on a plain note, does he not?

Mr. ZAGORIN. Yes.

Mr. PETTY. But it is the garnishment which is the security.

Mr. PASSMAN. I understand that, but you give him a loan on a plain note without security because he has a job with the bank?

Mr. ZAGORIN. That is right.

Mr. PASSMAN. You will make him a loan of $6,000 without security other than the fact that he has a job with the bank?

Mr. ZAGORIN. That is right.

Mr. PASSMAN. What if he decides to quit?

Mr. ZAGORIN. He must pay it back.

Mr. PETTY. The Federal credit union has a somewhat similar provision.

Mr. PASSMAN. This is not a credit union. This is the Asian Development Bank. The Export-Import Bank or any Federal banking institution that I know of, does not make loans to their employees——

Mr. PETTY. I do, sir.

Mr. PASSMAN. Where?

Mr. PETTY. I believe the commercial banks have a policy of making a——

Mr. PASSMAN. Who?

Mr. PETTY. Commercial banks, many of them have a policy of making installment loans to some of their employees.

Mr. PASSMAN. Commercial banks?

Mr. PETTY. Yes.

Mr. PASSMAN. But not the Federal Government.

Mr. PETTY. The Federal credit union——

Mr. PASSMAN. You know what the request is, do you not? We want to know the total number of loans to all staff personnel of the Asian Development Bank, the name of the individual, the amount of each loan, and the aggregate of all loans outstanding.

I want to be fair about this, but we are going to find out in what direction we are traveling. Off the record.

(Discussion off the record.)

Mr. PASSMAN. What is the total number of employees that have received loans? You will get this informaton for the committee or you will not get any money.

This agency will not, nor any other agency, start withholding information from this committee. If we were developing some new, terrible weapon, that was such a top secret that the security of this country was involved, that might be different. But you are not going to withhold this information, gentlemen. There is a rollcall in the House and we will take a brief recess. If you want to, call your legal counsel now because this will be a touchy item. This is the first time

in the 24 years I have been in Congress and the 22 years on the Committee on Appropriations we have ever been told that very simple information cannot be given to this committee.

Mr. ZAGORIN. Because it is private confidential information, Mr. Chairman.

Mr. PASSMAN. There is nothing private or confidential when you are giving away American money. I want you to cite your authority for what you have said. Are you a lawyer?

Mr. BRADFIELD. That is right.

Mr. PASSMAN. Cite your authority.

Mr. BRADFIELD. To begin with the records——

Mr. PASSMAN. I am not talking about records. I am talking about the legal authority that says you cannot furnish this information to this committee. The committee will take a brief recess.

(Short recess.)

TOTAL BANK EMPLOYMENT

Mr. PASSMAN. Of the total number of staff members, all categories such as chambermaids, chauffeurs, Board members, clerks—I am enumerating a few so you know what I want—how many people are working for the Asian Development Bank.

Mr. ZAGORIN. 438 staff members as of December 31, 1969, plus the President and Vice President, 10 Executive Directors, and 10 Alternate Directors.

Mr. PASSMAN. How many are working for the Export-Import Bank? The staff informs me that the Export-Import Bank is a $3 billion annual operation and carries on board in fiscal 1970, 364 employees. If they get all the money they are asking for, they will have 398 employees in fiscal 1971.

Under this arrangement for employees to borrow money from the Bank, all employees would be treated equally. By that, I mean they would be eligible for the same consideration, would they not?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Prior to the list that we have asked for, what is the total amount under your heading "Accounts receivable" due from employees of the Bank?

Mr. ZAGORIN. I will have to get that figure. I do not know, sir.

Mr. PASSMAN. None of your associates have that figure?

Mr. ZAGORIN. No, sir. It does not appear in the public financial statement.

Mr. PASSMAN. Most any other information with respect to creditors, even into tens of millions of dollars, you would have available, would you not?

Are you our representative on this Board?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Do they let you have that information?

Mr. ZAGORIN. I have never had it before.

Mr. PASSMAN. Let us calm down and see if we are not traveling in the same direction. You are the chief delegate of the United States on this Bank Board, and you do not have that information, do you?

Mr. ZAGORIN. No, sir.

Mr. PASSMAN. Why don't you get it, Mr. Director, and I will back you up in your efforts. Off the record.

(Discussion off the record.)

PROPOSED SPECIAL FUND

Mr. PASSMAN. If I am not mistaken, the Budget for fiscal 1971 indicates that legislation would be proposed to authorize an additional $100 million U.S. contribution to the consolidated special funds of the Bank and a supplemental request would be presented to Congress for $25 million in fiscal year 1970.

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Gentlemen, in what direction are you taking this committee, the Congress, and the American people? You have a 4-year supply of money, if you maintain the same level of commitments that you have for the last 2 years of your 3-year operation. You have $96 million invested in the United States, a good part with a 3-year maturity date. Are you serious that you are going to ask for a $25 million supplemental?

Mr. PETTY. Mr. Chairman, today we are requesting the appropriations of a fifth and final installment on our subscription to the Bank's paid-in capital as it was originally set up.

Mr. PASSMAN. Don't you know I know that as well as you do? I have finished my interrogation on that estimate. I am asking at this time if you people are thinking of asking for an additional $100 million of which a supplemental estimate of $25 million applicable to the fiscal year ending June 30 is to be requested.

Mr. PETTY. Yes, sir.

Mr. PASSMAN. You are doing that notwithstanding the fact that you have a 4-year supply of money on hand if you operated at the same level as you have in the last 2 years. In addition, you have some $96 million invested in the United States, do you not?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. How much of that $96 million has a maturity beyond 1 year?

Mr. PETTY. More than half I would suspect, but I will have to confirm that, sir.

Mr. PASSMAN. Gentlemen, you have made the case. This is a good way to get a promotion: Tell them that you are not going to recommend it.

Mr. PETTY. I think it is important to know that the ordinary capital of the Bank makes the ordinary hard loan, requires repayment in accordance with the earnings of the underlying project.

INVESTMENT OF BANK FUNDS IN THE UNITED STATES

Mr. PASSMAN. Is this $96 million you have invested in the United States in hard dollars?

Mr. PETTY. It is and it is for the purpose of hard ordinary capital loans.

Mr. PASSMAN. I know, but you can transfer funds from one window to the other. You have an interchange arrangement between the two accounts.

Mr. PETTY. We did that last spring.

Mr. PASSMAN. You have not answered my question. You have that authority.

Mr. ZAGORIN. To a limited extent.

Mr. PASSMAN. It follows nevertheless that you have some $50 million or thereabouts invested in the United States with a maturity date as far away as 3 years.

Mr. PETTY. It could be.

Mr. PASSMAN. It is true, is it not?

Mr. PETTY. It is in excess of a year.

Mr. PASSMAN. You have $96 million invested, but over half of it has a maturity date that goes up to 3 years; is that right?

Mr. PETTY. An investment policy permits them to go to 3 years.

Mr. PASSMAN. I am not talking about the investment policy, my dear fellow American. I am talking about the facts of life. You do have about $390 million that will carry you for 4 years at the same level of spending if you do not get another dime, and you have $96 million of that invested in the United States and of that $96 million some 50 percent or more has a maturity date as far away as 3 years; is that right?

Mr. PETTY. You are talking about disbursements, Mr. Chairman.

Mr. PASSMAN. I am talking about money you have invested. Let us not muddle the record. I am entitled to a yes or no answer.

Mr. PETTY. Disbursements could——

Mr. PASSMAN. I am not talking about disbursements. You know what I am talking about.

You people have $396 million, a 4-year money supply in all your accounts based at the same level of commitments that you had in the last 2 years of the 3 years of operation of the Bank.

Mr. ZAGORIN. But we expect——

Mr. PASSMAN. Let me finish my statement. You have $96 million of that invested in the United States in certificates of deposit, with over half of it with a maturity date falling beyond the first year and going up to 3 years; is that correct?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Notwithstanding that fact, you are proposing to come to the Congress and ask for an additional $100 million authorization not applicable to the new fiscal year that starts a little over 4 months from now, but you want $25 million of it as a supplemental appropriation in fiscal 1970.

Is that right?

Mr. ZAGORIN. That is right, sir.

Mr. PASSMAN. If you get it, then I say this: The greatest service I could render America would be to use whatever influence I have to rent three complete floors at St. Elizabeth, get the Congress committed, and reserve enough space for you people on the floor above us. I cannot believe this is happening.

Mr. PETTY. These funds match the contributions that Japan has already made.

Mr. PASSMAN. I am not interested in what Japan has done. I am interested in America. Japan is going to be the greatest recipient of this bonanza and you know I know that. I understand they are cooking up a pot of stew downtown to come in with a supplemental for the Inter-American Bank.

Mr. PETTY. The callable capital of the Inter-American Bank; yes, sir.

Mr. PASSMAN. The budget also indicates that of the proposed $100 authorization, $35 million would be recommended for fiscal 1971, and $40 million for fiscal 1972; is that correct?

Mr. PETTY. Yes, sir. Roughly to match the Japanese contributions to this.

Mr. PASSMAN. I say again, I am not interested in what Japan has done, my dear friend. You will not use what somebody else is doing to pry money from the United States as far as I am concerned. You and I know that Japan is going to be the main recipient of this bonanza because it is the only industrialized nation in the area.

Let me ask a question along those lines. Of the $135 million in disbursements—is that what has been made?

Mr. PETTY. Not disbursements, commitments.

Mr. PASSMAN. Let us get down to disbursements.

Mr. ZAGORIN. Yes, sir; $9.2 million, Mr. Chairman, of disbursements.

Mr. PASSMAN. On projects.

Mr. PETTY. As of December 31, 1969.

TOTAL BANK OVERHEAD

Mr. PASSMAN. What was the total overhead of the Bank up to December 31, 1969?

The purpose of the Bank is to make loans to underdeveloped countries; is that right?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. You have disbursed $9.2 million in loans to these underdeveloped countries, is that right?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. What has been your total administrative expense?

Mr. PETTY. Since the inception?

Mr. PASSMAN. Since inception of the Bank to the closing on December 31.

Let us get it by year.

1967 is the first year.

Mr. ZAGORIN. Gross expenses was $2,453,000.

Mr. PETTY. He wants administrative expenses.

Mr. ZAGORIN. $2,409,000.

Mr. PASSMAN. What was it in 1968?

Mr. ZAGORIN. $3,565,000.

Mr. PASSMAN. 1969?

Mr. ZAGORIN. $5,652,000.

Mr. PASSMAN. What is the total?

Mr. ZAGORIN. $11,626,000.

Mr. PASSMAN. And your disbursements on approved loans to recipient countries was $9.3 million?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. During the same period your administrative expenses were $11,626,000?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. The purpose of this Bank is to make loans to underdeveloped countries; is that right?

Mr. PETTY. Yes, indeed.

Mr. PASSMAN. For a little over 3 full years of operations you disbursed against loan approvals $9,300,000, but you spent $11,626,000 in administrative expenses.

Mr. PETTY. I suggest the income of the Bank during this period was sufficient to cover the expenses.

Mr. PASSMAN. You do not have to have any experts to buy a billion dollar or a $500 million U.S. Treasury bond. I could invest all your money any morning you designate and you know you could, too.

Mr. PETTY. Absolutely.

Mr. PASSMAN. We are just kidding ourselves when we try to make this a rosy picture. I think it is the most mismanaged outfit I have ever had anything to do with.

I want to repeat earlier testimony for the benefits of the gentlelady. The purpose of the Asian Development Bank is to make loans to underdeveloped countries.

Mrs. HANSEN. I have just been looking at Samoa and it is too bad we do not have any money.

Mr. PASSMAN. From 1967 to 1969 they disbursed against loan commitments to recipient countries $9,300,000, but during that same period administrative expenses were $11,626,000.

To be fair about it, the first year it took considerable expense to get organized, or did that expense come out of a different account?

Mr. ZAGORIN. No, sir, the same account.

Mrs. HANSEN. What did those expenses encompass?

Mr. PASSMAN. You had a going operation beginning in 1968.

Gentlemen, you now have a 4-years' supply of money on hand at the present level of commitments, with $96 million invested in the United States, half of it with a maturity date as far away as 3 years, and now you are going to come in sometime in the next few days, hours, or weeks to try to get an authorization through the Congress for an additional $100 million. Then you want the first installment of $25 million in the way of supplemental for fiscal 1970. You cannot wait for the regular annual appropriation. For a full year's supply of money you cannot wait 120 days and have it in the regular bill. I have always said you can get a lot of money in the supplemental bills that you cannot get in the regular bill.

You do not need it and you shouldn't ask for it. But then you want the last two installments to be paid quickly—$35 million 4 months from now, and then the other $40 million next year. Have I recited that correctly?

Mr. PETTY. Yes, sir.

Mr. HIRSCHTRITT. Mr. Chairman, may I ask a question?

Mr. PASSMAN. Ask a dozen if you want to.

Mr. HIRSCHTRITT. You mention a 4-year supply of money which is under the assumption that the rate of lending would stay level.

COMMITMENT RATE

Mr. PASSMAN. Didn't I say level? It could be less. I said commitments at the same level, not spending. Don't you have on hand a 4-year supply of money if your commitments remain at the same level of the past 2 years?

Mr. HIRSCHTRITT. Yes.

Mr. PASSMAN. You asked for this and I will help you to make the record. You have a 4-year supply of money if your commitments remained at the average of $70 million a year, as they have in the past 2 years?

Mr. HIRSCHTRITT. They cannot.

Mr. PASSMAN. I did not say that. I said if they do. Didn't I say at the present rate of commitment?

Mr. ZAGORIN. You did, but it is not expected to be the case.

Mr. PASSMAN. I do not care what you expect. At the same rate of commitment you would have—I am not talking about the first year but about 1968 and 1969—if things got so tight that you had to operate at that level, you could could you not?

You do not know at this time whether your commitments will increase or not.

You assume they will.

Mr. ZAGORIN. We know. Earlier you asked if we could give you the proposals which we have on hand.

On the basis of that we expect the lending rate to be about $200 million in 1971.

Mr. PASSMAN. If you put it on that basis, you would still have a 2-year supply of money, wouldn't you?

Mr. ZAGORIN. No, sir.

Mr. PASSMAN. You have $396 million on hand.

Mr. ZAGORIN. We have already committed $139 million.

Mr. PASSMAN. Gentlemen, you are taking this country for a ride. You are the U.S. Director, and the Bank President won't even let you know or he hasn't, who the Bank has made loans to and in what amount. Didn't you tell us that?

Mr. ZAGORIN. Yes, sir.

(Discussion off the record.)

LOANS TO EMPLOYEES

Mr. ZAGORIN. But these are personal loans.

Mr. PASSMAN. I know, but they are coming out of the Bank's funds.

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. That is what makes it so bad.

Mr. SHRIVER. I did not get that. You are loaning money to employees of the Bank?

Mr. ZAGORIN. When they initially come to the Bank, many of the people come from overseas, and they have to buy things in order to get settled.

The Bank advances them no more than one quarter of their annual salary, which has to be repaid out of their salary income over the next 18 months. This is loaned to them at 5 percent, and in special cases loans may be made which are repayable over 12 months at 6 percent per annum interest. It is a sort of settlement kind of loan made within 6 months of arrival at Manila.

Mr. PASSMAN. This is what is significant.

Mr. SHRIVER. We do not have this in private enterprise that I know of. Employees cannot borrow from a company.

Mr. PETTY. It is my experience that some commercial banks do permit their employees to borrow from their installment credit depart-

ment just as they solicit business from people down the street. They make those facilities available to their employees for getting started. In addition the policies vary with the institutions, but they could make some longer term lending available.

Mr. PASSMAN. Who established that policy of making loans to employees—the President of the organization?

Mr. PETTY. You are talking about the Asian Bank?

Mr. PASSMAN. Yes.

Mr. ZAGORIN. Mr. Chairman, may I explain?

Mr. PASSMAN. Certainly.

Mr. ZAGORIN. Yes; the President of the Bank proposed this.

Mr. PASSMAN. The President of the Bank made the decision that employees of the Bank could borrow up to 25 percent of their annual salary, and you have 438 staff employees, and each and every employee, technically, is eligible for a loan if he requests it, is that correct?

Mr. ZAGORIN. I believe so, sir.

Mr. PASSMAN. You are the U.S. Director of that Bank, and you do not know how much money has been made available to how many employees and in what amount, do you?

Mr. ZAGORIN. I do not know specifically, no.

Mr. PASSMAN. Do you know of any one loan?

(Discussion off the record.)

Mr. PASSMAN. You do not know how many loans were made, to how many employees, and in what amount?

That is secret information of the President only, is that correct?

Mr. ZAGORIN. The specifics.

Mr. PASSMAN. It is secret information specifically for the President of the Bank, is that right?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. You agreed you would go out there and try to get this information, didn't you?

I am going to back you up.

Did we have that agreement, that you are going to try to straighten out this situation?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. I will back you up.

Mrs. HANSEN. What is the average size of the loans so far?

Mr. ZAGORIN. I do not know that information.

I will have to try to get that. I will try to get that information but I just don't have it now.

(The information follows:)

As of December 31, 1969, total loans outstanding under the ADB staff loan plan amounted to $129,363, reflecting repayments of principal during the year of $178,260. The outstanding loans related to 77 individuals and the average loan size was $1,680. No defaults have occurred, repayment is made by deduction from salary.

The purposes of the staff loan plan are:

A. To assist staff members in getting settled in their duty station. Within 6 months after arrival at duty station a staff member is eligible for an advance of funds not exceeding 3 months salary repayable within 18 months with interest at 5 percent per annum; in special cases an additional advance of up to $2,000 may be made which is repayable in 12 months with interest at 6 percent per annum.

B. To assist in special and unusual circumstances arising from disasters such as fire, flood, et cetera, and in cases of personal hardship or tragedy resulting

from acute sickness, injury, or death in a staff member's family. After a minimum of 6 months service with the Bank a staff member is eligible for such special salary advance not exceeding 1 month's salary repayable over 6 months; after 12 months service a staff member is eligible for a special salary advance not exceeding 2 months' salary repayable over 12 months; no special salary advance may exceed 2 months' salary and all such advances are at 5 percent interest per annum.

(Clerk's note: Additional information was furnished to the Committee.)

Mr. PASSMAN. Earlier there was some indication by the judge that the committee could not get that information. Can you imagine that? I would not say he said it with arrogance because he may wind up on the Supreme Court some day, and conceivably I could be before him.

Mrs. HANSEN. He probably is not from the right State to get on the Supreme Court.

Mr. PASSMAN. What State are you from?

Mr. BRADFIELD. New York State.

Mrs. HANSEN. Then he would not get on the Supreme Court for quite a spell.

Mr. SHRIVER. Is this the same kind of matter that was discussed by Jack Anderson in his column on February 3, "Latin Loan Bank's Funds Mishandled"? I know that is not your bank, but I understand preferred loans were given to friends.

Mr. ZAGORIN. May I try to explain what the purpose of this is? A great many people come to this Bank from countries where the foreign exchange is not made available to them when moving to Manila. If you go to Manila you have to import a lot of household furnishings and equipment and normally have to pay a rental advance for 3 months or more. These loans are primarily available for people who go to Manila, install themselves and buy furniture and refrigerators and so forth, because that is the only way they can live in those circumstances. They are not easily available in Manila. So an advance is made because it is a very costly thing to set up housekeeping, so to speak, in Manila when new employees arrive there. This is the purpose of the loan.

Mr. SHRIVER. There is not much money involved?

Mr. ZAGORIN. There is not much money involved.

Mr. SHRIVER. It is secured by the money the person will receive in salary.

Mr. ZAGORIN. It comes out of the salary and it is finished after their initial entry into the bank is concerned. They do not continue to get it and they do not get it for large sums.

Mr. PASSMAN. Isn't that an assumption?

Mr. ZAGORIN. No, sir.

Mr. PASSMAN. Let me make my statement because you answered in the affirmative earlier. You do not know until you get into the list as to what that President is doing. Why don't you protect yourselves and wait until you get this information. You said it was known only to the President. He did not let the Board members in on it. Why do you want to muddle up the record and repudiate what you previously said for the record? I want to back you up. We want to know first whether that President will let you know. So far he has not. It looks to me as if it is a one-man operation. Why don't you get a cablegram off and get some information.

Mr. PETTY. I think that is the next step, Mr. Chairman.

Mr. PASSMAN. You people have $96 million invested in the United States of which over $50 million will not mature for 3 years, and you are proposing an authorization bill for $100 million, of which $25 million will be requested as a supplemental this year.

You are putting that supplemental estimate of $25 million ahead of the regular annual estimate of $20 million and you are only 120 days away from the new fiscal year. I am about to throw in the sponge. One of my friends over there whom I have been observing for many years, and for whom I have a very high regard is Mr. Betts. I am surprised he did not tear the justifications up before they got here, knowing his background as I do, or I thought I knew it. Foreign governments are going to gobble up the resources of this country. I do not know whether there is any way it can be stopped. This foreign aid program has become such a substantial element of our foreign policy.

Gentlemen, I do not feel we are through with this program. We are going to have to prove again and again and again that you do not need any new authorization for $100 million. I am going to take this proposal directly to the President. I do not believe he knows that the total foreign aid request in his January budget is a billion 300 million dollars over last year's request. How many of the member nations are presently receiving U.S. aid? This is just another spigot of aid.

NUMBER OF NATIONS RECEIVING U.S. AID

Mr. PETTY. Under the multilateral program?

Mr. PASSMAN. I am talking about some form of U.S. aid.

Afghanistan is a U.S. aid country, isn't it?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Cambodia?

Mr. ZAGORIN. No, sir.

Mr. PASSMAN. Ceylon?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Republic of China?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Hong Kong?

Mr. ZAGORIN. I do not believe so.

Mr. PASSMAN. We have a Public Law 480 program there. We just interrogated a few days ago about the Far East refugee program in Hong Kong.

Mr. PETTY. I am not aware offhand.

Mr. PASSMAN. Is that your understanding, Mr. Betts?

Mr. BETTS. I am not close enough to the foreign aid program to know what programs operate in each country.

Mr. PASSMAN. Let me make a statement of fact. We do have a Public Law 480 program in Hong Kong. In addition under the refugee program we have been making certain contributions out there.

Mr. BETTS. Isn't there a hospital out there or a children's home financed from aid funds?

Mr. PASSMAN. Certainly. India?

Mr. ZAGORIN. Yes, sir; India is big.

Mr. PASSMAN. Indonesia?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Korea?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Laos, Malaysia, Nepal, Pakistan, Philippines, Republic of Vietnam, Singapore, Thailand, Western Samoa. All of those countries are recipients of bilateral U.S. aid, are they not?

Mr. ZAGORIN. I am not sure of Singapore and Western Samoa.

Mr. PASSMAN. This is another spigot because it is a form of aid.

Mr. PETTY. This is an additional way to create——

Mr. PASSMAN. I say it is an additional spigot of foreign aid, is it not?

Mr. PETTY. Yes, it is.

Mr. PASSMAN. Thank you, gentlemen, it may be necessary to have another session with you on the way this Bank is operating. If we decide to do so, we will let you know as soon as possible. Mr. Shriver?

RESTRICTION ON USE OF NATIONAL CURRENCY PORTION OF SUBSCRIPTION

Mr. SHRIVER. The justifications state that developing country members of the Bank may restrict the use of the national currency portion of their payments to be spent in their country. Do the developed country members such as United States have the same right and prerogative?

Mr. ZAGORIN. Only Australia and New Zealand, and they have exercised that right.

Mr. PASSMAN. What was the occasion?

Mr. ZAGORIN. The charter provision allows those countries—as regional developed countries which do not have most of their exports in industrialized goods—to restrict it in this fashion.

Those are regional developed country members. The reason was because the subscriptions were based on quota for the Asian countries, and Australia and New Zealand had large quotas under that formula—$85 million for Australia and $22.56 million for New Zealand.

Those countries felt that since they had very little in the way of industrialized goods to sell that the subscription was very high and they should have this kind of allowance. This was negotiated when the charter was written. But this does not apply to Japan and it does not apply to any non-regional developed country member.

TECHNICAL ASSISTANCE ROLE OF THE BANK

Mr. SHRIVER. You mentioned the Bank has emphasized its technical assistance role. Could you tell us about any specific instances in which the U.S. bilateral technical assistance projects were discontinued, or were not initiated in the area because the job was being done by the Bank?

Mr. ZAGORIN. I know of one case, where a need for some agricultural experts in Indonesia was provided by the Bank in the Ministry of Agriculture in Indonesia. It was agreed that instead of the United States supplying six people, the Asian Development Bank would supply three people and the U.S. AID Mission would supply three.

Mr. SHRIVER. At that time were we giving aid to Indonesia?

Mr. ZAGORIN. Yes, sir; this happened 2 years ago.

That is one specific instance where the U.S. aid was in fact smaller you might say if they felt that they were going to be prepared to give six people. They gave only half as many and the Bank gave three people. In other cases what has happened is that some lending activities—I am thinking now for example of a loan to a development bank in Korea, where they supplied some loan capital, that is, the U.S. Government did a couple of years ago, which has been followed by the Asian Development Bank supplying such loan capital and the U.S. Government no longer does it.

This also was proposed in a development bank in Pakistan. I think it is hard to say what the U.S. aid program would have been, but we do have some cases in which activities which had been carried on by the U.S. Government were then followed by activities carried on by the Asian Development Bank.

Mr. SHRIVER. If you can think of further examples where there has been a lessening of a need for our aid program by virtue of our participation in this kind of an organization, put it in the record.

Mr. ZAGORIN. Yes, sir.

(The information follows:)

Without necessarily attributing a casual relationship, in several projects in the Philippines, Thailand, and Afghanistan the Asian Development Bank is providing assistance in the fields of agricultural development, water management, and irrigation which are sectors in which the U.S. AID missions had been active previously in those countries. These are illustrative examples of ADB activities in particular sectors which followed, in time, similar types of assistance provided by the U.S. Government in certain countries.

Mr. SHRIVER. The justifications state that these technical assistance projects were financed both from the Bank's ordinary capital and from special contributed resources.

Mr. ZAGORIN. Yes, sir.

Mr. SHRIVER. Is this latter account the special fund to which the United States has refused to contribute?

Mr. ZAGORIN. No, sir.

Mr. SHRIVER. What is the special fund? Who has contributed, how much, and how has the money been used specifically?

Mr. ZAGORIN. I can give all that information for you, Mr. Chairman, but may I just state now that $1,240,000 in total has been contributed for technical assistance by Canada, Denmark, Finland, Germany, Japan, New Zealand, United Kingdom, and the United States. Of that amount, $250,000 was provided by the United States. This has been used for a number of different projects in many countries—26 projects in all, I believe.

Mr. SHRIVER. Would you list those for the record?

Mr. ZAGORIN. Yes, sir.

(The information is on page 180.)

(Discussion off the record.)

Mr. PASSMAN. Would the gentleman yield?

Mr. SHRIVER. Yes, Mr. Chairman.

Mr. PASSMAN. I believe President Johnson nominated you to your present position.

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. When were you confirmed?

Mr. ZAGORIN. It was March 1966.

Mr. PASSMAN. This $100 million authorization you are requesting is a hangover from President Johnson's administration. I believe then it was $200 million.

Mr. ZAGORIN. $200 million.

Mr. PASSMAN. I mean the $100 million you are asking for now is a carryover or hangover from the Johnson administration, is that right?

Mr. ZAGORIN. It is a revision, sir.

Mr. PASSMAN. Let me get the answer to my question, gentlemen.

You do not know the question I am asking you. This $100 million is something that was recommended previously by the Johnson administration, is that right?

Mr. PETTY. $200 million at that time.

Mr. PASSMAN. It is a hundred million dollars now.

This is a revision from that recommendation, is that correct, sir?

Mr. ZAGORIN. Yes, sir.

Mr. PASSMAN. Thank you very much.

Mr. SHRIVER. So this is not any new direction as far as the Bank is concerned or this administration is concerned, is it?

Mr. ZAGORIN. I beg your pardon?

Mr. SHRIVER. This is not a new direction?

Mr. ZAGORIN. I would just like to say it is a different proposal. It is not the same proposal. It is not a carryover in that sense because there are several different features to it. One of the important features is that it has been altered and also that we will not give any more than the other largest contributor.

This is one feature which was different.

Mr. SHRIVER. But the amount is not anything new.

Mr. ZAGORIN. The amount is $100 million. The purpose for which it is being put is the same as the $200 million purpose.

Mr. PASSMAN. But this $100 million is just a smaller amount of money for the same program discussed and tentatively approved under the Johnson administration. I am talking about the $100 million.

Mr. PETTY. But the decision——

Mr. PASSMAN. You have not answered the question, though. Is this $100 million the same as the $200 million that was under discussion under the Johnson administration?

Mr. PETTY. No, sir; it replaces the $200 million.

Mr. PASSMAN. $200 million under discussion then.

Mr. PETTY. Yes.

Mr. PASSMAN. But $100 million is a part of the amount discussed by Secretary Barr when he was in, is that right?

Mr. PETTY. Except now this is the total amount.

Mr. PASSMAN. The total amount now. Is that your understanding?

Mr. BETTS. Yes, I have forgotten just what the legislative history was. There was an authorization proposed at one time and discussed in the amount of $200 million. The House substantive committee reported the bill and the Senate committee did not report the bill.

There was a bill in the legislative process for the concessionary type of loans that this program was supposed to make.

Mr. PASSMAN. This is the same type of legislation that was previously discussed?

Mr. BETTS. It is my understanding that the new legislative proposal about to be sent up to the Congress is for the same general purpose—concessionary lending—as that requested 2 or 3 years ago.

Mr. PASSMAN. Certainly it is, and you gentlemen know it is. I wanted to make the record complete. Thank you very much, Mr. Betts. Your knowledge of this is greater than some of the administrators. Mrs. Hansen, would you assume the chair?

Mr. SHRIVER. May I continue?

Mrs. HANSEN. Of course, you may.

Mr. SHRIVER. What do you mean by the last reference to concessionary loans?

CONCESSIONARY LOANS

Mr. BETTS. This is the purpose of the legislation for a special fund; that it is a different type of lending program on more favorably lending basis to the Asian countries.

Perhaps Mr. Zagorin and Mr. Petty could give you more of the details. I do not have the specifics.

Mr. SHRIVER. Very well.

Mr. ZAGORIN. Our standard rate of interest, 6⅞ percent, which is felt by us to be difficult and not appropriate for certain countries which, because of their economic situation, would have too much difficulty in paying at that rate. I am thinking of countries like Laos, Nepal, Western Samoa, Afghanistan and so forth. There are a number of countries, perhaps half of our total membership which are, we feel, not really strong enough to borrow at 6⅞ percent. Therefore, there is an additional facility which the Bank has for making concessionary loans. We have made loans at one and a half percent to Western Samoa, 3 percent to Indonesia.

Mr. SHRIVER. Yes, but there are other organizations that we participate in that have this kind of money available, like IDA.

Mr. ZAGORIN. Yes, sir.

Mr. SHRIVER. So why have another one?

Mr. PETTY. We have found that the regional development banks, the Inter-American Development Bank, and the Asian Development Bank, are an appropriate supplement to the role the World Bank has played. Just as the World Bank has found a need for IDA, where a project need exists but a capacity to service the debt on the hard term loans of the ordinary capital of the bank does not exist, we found it desirable and useful to supplement the activity of the ordinary capital of the Bank.

We could find as well that the Asian Development Bank can and does work with the World Bank, just as the World Bank can and does work with the Inter-American Development Bank in parts of Latin America.

Just as our own bilateral aid program, an example Mr. Zagorin gave as the type of assistance in Indonesia, is a case where working together, coordinating our resources, capitalizing upon the regional Asian identity that the Asian Development Bank has, where they feel as if

they are participating more heavily and are more involved in their own development exercise, fostering this identificatiton that the Asians have in the Asian Bank is a desirable complement to the World Bank.

Mr. ZAGORIN. May I just add, IDA has not done very much and still does nothing in some of the smaller countries of Asia. The IDA program has been largely concentrated elsewhere.

Mr. SHRIVER. It does not necessarly have to be so.

Mr. ZAGORIN. No, sir.

Mr. SHRIVER. If this is an area of great need, it would seem to me rather than have another agency involved in this kind of a loan, the existing agency should take care of it.

Mr. ZAGORIN. Our bank seems to be well suited, at least from the experience to date, to deal with some of these.

Mr. SHRIVER. One of the things that bothers legislators, and I am sure our constituents, is the fact that we continue to add new programs and enlarge existing programs. So when you add up the whole total, as Mr. Passman has from time to time, you have a rather large program of foreign spending and foreign aid. This is certainly a part of it.

When you read about foreign aid, people only think of the bill that last year was greatly reduced. They do not realize the amount of money we are contributing in programs such as this. The whole program is really growing, when most people in the country think it is being cut back.

Mr. ZAGORIN. Concessional financing, at less than the regular rates of interest in Asia, have been almost entirely provided by the U.S. Government for many of these Asian countries in bilateral assistance.

The Asian Development Bank provides a vehicle for a very substantial contribution to Asia by Japan, and hopefully by other countries.

Mr. SHRIVER. Doesn't Japan take part in IDA?

Mr. ZAGORIN. Yes, but only to a limited extent. The contribution it makes there is small. The contribution that Japan makes here is relatively very much larger.

Out of the present $53 million which is available to be spent, Japan has contributed $40 million.

BANK INCOME AND EXPENSES

Mr. SHRIVER. I can understand why she would. We will go to another subject. Regarding the comparative statement of income and expenses, you show expenses of $29,000 for the Board of Governors, $148,000 for the Board of Directors, and $1.6 million for staff. Total expenses were over twice what they were in the previous year. How do these increases compare with the experience of the Inter-American Bank at a similar stage?

Mr. PETTY. Could I submit that for the record? I do not have the numbers of the Inter-American Bank.

Mr. SHRIVER. Yes.

(The information follows:)

COMPARISON OF ADMINISTRATIVE EXPENSES OF THE INTER-AMERICAN DEVELOPMENT BANK AND THE ASIAN DEVELOPMENT BANK DURING THEIR 1ST 3 FULL YEARS IN OPERATION

[Ordinary capital resources]

	1st year		2d year		3d year	
	Asian Development Bank Nov. 24, 1966 to Dec. 31, 1967	Inter-American Development Bank 1961	Asian Development Bank 1968	Inter-American Development Bank 1962	Asian Development Bank 1969	Inter-American Development Bank 1963
Board of Governors	$17,417	$74,560	$35,599	$127,187	$64,892	$138,908
Board of Directors	531,672	153,529	577,630	222,096	724,949	319,869
Staff	1,550,894	1,416,081	2,357,177	2,543,673	3,993,031	3,457,587
Other	309,972	587,021	595,386	1,035,913	896,726	1,548,230
Total administrative expenses	2,409,955	2,231,191	3,565,192	3,928,870	5,652,598	5,464,594

Mr. SHRIVER. Would you expect these expenses to level off now or continue to increase?

Mr. ZAGORIN. I think we are getting a leveling off. The increase in staff, for example, which is a major factor in the increase in cost in 1970, because of the new arrivals in 1969 with the full year effect, the increase in the number for the professional staff is to be raised by 20 persons—from 148 to 168 professionals despite the fact that the Bank expects to do twice the business.

If you compare 1968 to 1970, administrative cost will be doubling but the total business will be fivefold higher.

We are leveling off. There is the intention, as a matter of fact, of the President of the Bank and of the Board of Directors to consolidate as much as possible with existing staff, and to have only small increases to the extent possible to carry on the existing workload.

I would expect it to level off.

REPRESENTATION EXPENSES

Mr. SHRIVER. The comparative statement of income and expenses in your justifications shows that in 1968 representation was $24,000; in 1969, $44,000; now in 1970, will you expect it to almost double again?

Mr. ZAGORIN. No, sir.

It is only anticipated that it will be $50,000 in 1970.

Mr. SHRIVER. What does that buy?

Mr. ZAGORIN. I have some figures on that. The $44,000 consisted of the following items: $18,000 was representation by staff members—at headquarters, $6,000 and on business trips, $12,000. The remainder is for the Office of the Presidency for official hosting of functions at meetings and conferences.

Mr. SHRIVER. Is that purchasing meals and beverages and potables?

Mr. ZAGORIN. It includes expenditure and entertainment of representatives of member Governors, borrowers, and investment groups directly concerned with the business of the Bank who come to visit the headquarters of the Bank.

Mr. SHRIVER. Why would it be necessary for those who are attempting to borrow from the Bank to be entertained at all?

Mr. ZAGORIN. To some extent it is reciprocal hospitality not only for borrowers but for other people who visit the Bank. For example, we have very closeworking relationships with the IBRD and when they have staff members going to Asia they usually stop in to talk over problems.

When ministers come to visit, and also when there are conferences held, the President officiates at a dinner or some kind of reception in order to honor the occasion. This is sort of ceremonial. It is not a very large amount.

Mr. PETTY. It seems to me appropriate, Mr. Shriver, to have a fund of this type available to the Bank and the staff if it is properly supervised and the amounts are used prudently.

Mr. SHRIVER. Do you know how much the Export-Import Bank spends for representation?

Mr. PETTY. Considerably less.

Mr. SHRIVER. Approximately $12,000 a year.

Mr. PETTY. I can imagine that. I know they do not travel around very much.

Mr. SHRIVER. Why are your people traveling?

Mr. ZAGORIN. They have to appraise the project proposals.

Mr. SHRIVER. Isn't this true with Export-Import Bank business?

Mr. PETTY. I would like to speak on that because I think there is a difference. We are comparing today the volume of business that the Export-Import Bank does—I work very closely with the Export-Import Bank and I have great respect for it and I did when I was in the private sector before I was working for the Government.

Mr. SHRIVER. I do, too, especially with an item of this kind.

Mr. PETTY. If I had a business proposition, I would develop it and come down to Washington, make a presentation to the Export-Import Bank, have all the i's dotted, an engineering survey, with a cash flow forecast, separate audits, and what have you.

The matter of presenting an export financing deal—I was giving an example to Mr. McFall of airplanes to Germany which they financed recurrently over the last few years and they know the German buyer—the responsibility of the Bank and the time involved in analyzing that loan is a totally different thing from examining, for example, an air transportation system in Nepal where the Nepalese do not have the same experience in running an airline, in appraising equipment or building highways and the engineers go from Manila to Nepal to examine that.

Mr. SHRIVER. Is there a question of having an industry in Nepal that you would be financing?

Mr. PETTY. I would defer to Mr. Zagorin, but transportation is a very important part in a country.

Mr. SHRIVER. Of course it is.

Mrs. HANSEN. You better tell that to somebody in the United States because if there is any system of transportation that has gone to pot in the world it is in the United States.

Mr. PETTY. I hope that is an endorsement of the new air travel coupon tax.

Mrs. HANSEN. It is an endorsement of doing something about all our forms of transportation and coming to grips with some very fundamental things that face this country in the next 20 years.

Mr. PETTY. I think that the President's emphasis on mass transportation versus highway in the recent budget is a beginning. I think the proposal with respect to airport tax is another important step. It is like steering the *Queen Mary*, if you steer one degree off course, you will get far off to another road. Steering a new course is what the President is undertaking.

POSSIBLE LOANS FROM SPECIAL FUND

Mr. SHRIVER. How many projects or applications do you have under consideration or do you anticipate from such countries as Nepal from the proposed special fund?

Mr. ZAGORIN. At the moment we have a project for agricultural development, I believe. We have recently made available a loan in concessional financing to Nepal.

Mr. SHRIVER. What other countries want this kind of a project?

Mr. ZAGORIN. What other countries do we have proposals for?

Mr. SHRIVER. You have applications.

Mr. ZAGORIN. For special funds or generally?

Mr. SHRIVER. Special funds.

Mr. ZAGORIN. We have a proposal that is coming up for an irrigation project in Laos shortly. We have a proposal for a joint financing with IDA for a fertilizer plant in Indonesia.

We expect on the basis of technical assistance which is now being finished, and feasibility study completed, an irrigation project in Afghanistan, and special fund probably in Vietnam, although I am not sure exactly when something will develop in Vietnam.

Those are representative of the kind of things. We do have a number of proposals which are up for financing.

Mr. SHRIVER. You have no funds available for those projects now?

Mr. ZAGORIN. Available in what sense?

Mr. SHRIVER. Not the special funds but any other method of financing.

Mr. ZAGORIN. The problem with those proposals is really that they have to be developed.

It takes them time to develop a good proposal.

Mr. SHRIVER. What has happened to the AID agency in connection with those kinds of programs?

EMPHASIS ON MULTILATERAL INSTITUTIONS

Mr. PETTY. There is a more deliberate part of that. The President just announced last week and became quite explicit in his emphasis with respect to multilateral lending institutions as probably the preferred form of giving assistance.

Not only does it get money from other developed countries, but it introduces an independent financial institution, which removes some of the political interlacing we have experienced in our own bilateral aid program. I am sure that the Peterson Commission will recommend to the President have on balance more emphasis on the multilateral lending institutions.

COST OF CONSULTANTS

Mr. SHRIVER. Let us take another item in this income and expense statement that you have in your justifications. I am referring to consultants. How much do you have in your budget in this next year for consultants?

There was $136,000 in 1968.

How much for the same item in 1970?

Mr. ZAGORIN. $445,000, sir.

Mr. SHRIVER. Quite an increase from 1968 for consultants.

Mr. ZAGORIN. Yes, sir.

Mr. PETTY. The budget of 1969 was $420 thousand. The actual or revised estimate of 1969 is around $333,000.

Mr. SHRIVER. Would you put a revised list in the record for 1969?

Mr. PETTY. Then the budget for 1970 is $445,000. Whether there will be the same type of short fall is too early to judge.

Mr. SHRIVER. Why are you going to employ that many more consultants or spend that much more money for that item?

Mr. ZAGORIN. In 1969 consultant expenditure was $159,000.

Mr. SHRIVER. That is right.

Mr. ZAGORIN. Mr. Shriver, we have found it necessary to assist ourselves and also the countries to put together good projects because there is such a limited amount of qualified personnel that we find in many of these countries to formulate good projects.

This is one of the reasons it has taken as long as it has for us to come along with good projects to finance. That is one reason we have started off with technical assistance. A year later we come along with a financing proposal. We have to appraise the project. What we do is go out and buy consultants to help us appraise the project.

Mr. SHRIVER. Where do you get them?

Mr. ZAGORIN. We get them from all over the world, as best we can, the best people for the money.

Mr. SHRIVER. Are they appraisers?

Mr. ZAGORIN. Yes, often they are. We have a statement I could give you of the number of consultants we have employed to date.

The largest number, 55, from Japan, 30 from the United States, 19 from the Netherlands, 15 from the United Kingdom.

Mr. SHRIVER. How are they paid?

Mr. ZAGORIN. Depending upon the kind of work they do and their expertise. On the average inclusive of per diem an individual consultant through 1969 was paid less than $2,000 per month. This is an average figure.

Mr. SHRIVER. What would be the top? That is quite a little sum, $2,000 a month.

Mr. ZAGORIN. Including per diem.

Mr. SHRIVER. You said that was average.

Mr. ZAGORIN. That is right.

Mr. SHRIVER. Including per diem.

Mr. ZAGORIN. That is right. I am not sure exactly I could give you the top, but including per diem perhaps $125 a day or something like that, for the very top flight consultant. I recall for a petrochemical plant we had to hire someone with highly specialized knowledge and

he was hired from an American consulting firm and the cost of that was rather substantial although he worked only 2 or 3 weeks.

Mr. SHRIVER. I think we had a list shown in the record last year. Will you put a similar list in for this year?

(The information follows:)

Consultants employed by the ADB during the year 1969 showing their various specialization

Engineer	2	Newsprint mill	1
Port management	1	Livestock industry	1
Highway engineer	2	Land development	2
Transportation engineer	1	Irrigation planner	1
Power engineer	1	Agronomist/Plantation	1
Palm oil engineer	1	Refrigeration	1
Finance and accounting	4	Agr./Business	1
Airport consultant	1	Petro-Chemist	1
Tourism	1		
Economist	4	Total	28
Fish marketing	1		

CRITERIA FOR LOAN ELIGIBILITY

Mr. SHRIVER. Last year I tried to find out how the Bank decided which countries were to be considered developed and which underdeveloped in considering where the Bank's assistance was to go. The answer which was subsequently inserted in the record stated, "It has not been necessary for the Bank to make a formal determination of which members are developing."

I can see where that might be the case at present but without such criteria, how will the Bank decide in the future when a recipient country has developed sufficiently to disqualify itself for future assistance?

Mr. ZAGORIN. You mean how would the Bank determine that a country is no longer developing but has become developed and therefore is no longer eligible for assistance?

Mr. SHRIVER. Yes. How would you decide that?

Mr. ZAGORIN. A formal determination has to be decided by the Board of Governors under the charter.

Mr. PETTY. Let me give an example of this, Mr. Shriver. Just last year, I believe it was, Hong Kong became a member of the Bank.

Mr. SHRIVER. I read that.

Mr. PETTY. I guess technically it is a developing country by one definition, but its available capital is larger than what we normally associate with developing countries. It does not have at present any plans to borrow from the Bank. We do not have any formal determination but this has been explicitly investigated by Hong Kong. Maybe that is a pragmatic example.

Mr. SHRIVER. Have you had any additional countries contribute funds or become members since the last hearings?

Mr. ZAGORIN. Yes, two countries have indicated their interest in joining and have made formal application. France has expressed a desire to join in a formal written application. This will be given to the Governors for decision within a couple of weeks.

Also Fiji.

Mr. SHRIVER. In this connection, Mrs. Hansen said she had just been to a meeting of her committee where Samoa was under consideration.

Mrs. HANSEN. Our Samoa is having difficulties in securing enough money to support itself.

Mr. SHRIVER. Is there any way that Samoa, who is now having difficulties in obtaining money to support herself, could obtain any funds from the Bank? I would think it would be a developing area under whatever criteria you have.

Mrs. HANSEN. We are not eligible, we just pay. Territories of our country are not eligible.

Mr. ZAGORIN. That is right. Also technically it is not in the ECAFE area and would have to be included in that area under an ECOSOC resolution for this purpose.

That is another reason why it would not be technically possible.

Mr. SHRIVER. We are not in the ECAFE area either.

Thank you, Madam Chairman.

VARIATION IN INTEREST RATES

Mrs. HANSEN. I have a few questions. I am sorry I did not attend the earlier part of these hearings because I was too busy hearing about the difficulties of Samoa. On page 4 you refer to the ordinary capital and the current interest rate and then you refer to your special fund resources. What is the interest rate on loans from the fund?

Mr. ZAGORIN. It has varied from 1½ to 3 percent.

Mrs. HANSEN. What is the criteria?

Mr. ZAGORIN. The very poorest country, Western Samoa, we felt——

Mrs. HANSEN. Who governs Western Samoa?

Mr. ZAGORIN. It is an independent country.

Mrs. HANSEN. Who was governing Western Samoa previously?

Mr. ZAGORIN. New Zealand, I believe.

Mrs. HANSEN. Who was its parent country many years ago.

Mr. ZAGORIN. Germany, many, many years ago, I believe.

New Zealand handles its foreign relations but it is an independent country.

Ceylon and Indonesia have received the 3 percent loans.

Mrs. HANSEN. How do you determine that one country gets a loan at one and a half percent and the other country gets a loan at 3 percent? Is this kind of like a welfare program?

Mr. ZAGORIN. No; it is a proposal from the President which is discussed by the Board of Directors.

Mrs. HANSEN. In other words, it is what you can afford.

Mr. ZAGORIN. What the country can afford.

Mrs. HANSEN. Yes.

Mr. ZAGORIN. Yes; there is a judgment about that. I believe that Laos, which will be getting a loan shortly from us, will probably get——

Mrs. HANSEN. If we do not blow it up before you get to it.

Mr. ZAGORIN. Will get loans comparable to that given to Western Samoa.

Mrs. HANSEN. On these six loans, what is the maturity dates for them?

Mr. ZAGORIN. The terms vary.

Mrs. HANSEN. Give me a few.

Mr. ZAGORIN. Twenty-five and thirty years.

BIDS FOR CONTRACTS

Mrs. HANSEN. The loans are for irrigation, land development, highway, and air transport projects. Who will do the construction of these projects? Are these American contractors, or are they contractors from the area?

Who does the contracting? Who prepares the plans and so on?

Mr. ZAGORIN. In the case of Western Samoa and Nepal, both of which are similar airport programs, the bank will select contractors on the basis of the best people who could do the job.

Mrs. HANSEN. Is this done by competitive bidding?

Mr. ZAGORIN. Competitive bidding. It could be an American contractor, but it would depend on who won the bidding as to which firm would be selected.

Mrs. HANSEN. The reason I ask is that, as you are well aware, construction in the United States funded by the Government is practically nil right now.

The freeze is on in all construction areas from highways to all the projects handled by the Department of Interior relating to environment, the development of fisheries and so on. There is no construction going on. So it seems strange to me that if construction is inflationary in the United States that it is not equally inflationary in these countries.

Mr. ZAGORIN. These countries will be provided outside resources to do this.

Consulting firms will be hired.

RELATION OF LOANS TO INFLATION

Mrs. HANSEN. When you eliminate construction on the basis that construction contributes to inflation, don't these loans add to the total picture of inflation, too?

Mr. ZAGORIN. Yes; it would add to expenditure, but these countries will have to control their other expenditure to such an extent that this one is considered to be a very high priority item.

It would be within a total investment program which hopefully will not be excessive.

Mr. PETTY. But it would not contribute to inflation in the United States.

Mrs. HANSEN. I am asking about an overall look at total inflation.

Mr. PETTY. Worldwide?

Mrs. HANSEN. That is right. I think most nations face inflation, don't they?

Mr. PETTY. It is certainly a nagging problem of development assistance. It is a problem where a country acquires basic infrastructure

financing, access roads, ports, where the productive ability follows after that.

Mrs. HANSEN. It is part of our own problem, too, inasmuch as it is necessary for us to do construction in order to maintain the management of certain resources. Yet because of the inflationary context of the construction expenditure, we stop all projects. It could well be that we are creating more inflation in other places.

Mr. PETTY. It is like the famous case of the access roads to the Northwest and getting at our timber reserves.

Mrs. HANSEN. If we do not have the roads we do not get at the timber to do the kind of timber management that should be done. So we sell logs to foreign countries. It is an interesting thing to see the size of Japan's housing program which is going ahead full blast, and ours which is practically down to nothing. You see these things when you examine our domestic budgets, and they examine the foreign aid budget. In this context you become extremely curious about the total relationship. You said that France had made application.

Why didn't she join earlier?

FRENCH MEMBERSHIP

Mr. ZAGORIN. I could not answer that very well, except that this was the national policy of France under De Gaulle, not to join and it is just recently that it got interested to join.

USE OF SPECIAL FUND

Mrs. HANSEN. Let me go back to this special fund resources. When I was in South America I asked the question repeatedly of various people about their nation's borrowing, what the impact was going to be on the nation when all of these loans became due, and what the consequences were going to be within their economy. Of course, it is anticipated these loans are supposed to provide for economic growth so that the country would be better able to pay. As you are well aware when we create better economic conditions, we also create demands for more social programs. So the cost of social programs in all countries is going up. Then you find the crunch coming where the inability and the lack of wanting to pay back these loans is not as great as the desire to spend money perhaps in education programs, social security, or any one of a number of various social programs.

What do you do in the examination of the requests for loans to prevent failure of repayment?

Mr. ZAGORIN. We have a couple of policies, I think, which are pertinent here. One, we have not made any loans for local currency financing, with the main argument that we would not wish to contribute to the foreign debt burden of a country through providing local currency financing.

Mrs. HANSEN. This is going to increase the debt burden?

Mr. ZAGORIN. It is going to increase the debt burden. But at the same time it is bringing in external or foreign resources.

Mrs. HANSEN. The irrigation loans, I imagine, are to either Ceylon or Indonesia?

Mr. ZAGORIN. Yes.

Mrs. HANSEN. We put in the irrigation project. As you well know that is not the end of the irrigation program. That is only the beginning. Then you are going to have to have the roads, the associated structures, the associated drainage problems. Then you have the increasing development in these irrigation areas which calls for greater demand on the country for education facilities and so on.

Then you have an added problem of maintenance. Do you build into these loans provisions for maintenance of the project? You are going to loan money for a highway, but if you do not make some agreement between the borrower and the Bank you might as well throw the money out in the wind because the road will go to pot.

Mr. ZAGORIN. Yes, we do make provision.

RESPONSIBILITIES OF BORROWER

Mrs. HANSEN. There is a commitment made by the borrower on maintenance?

Mr. ZAGORIN. Yes.

Mrs. HANSEN. The same way on air transportation?

Mr. ZAGORIN. Yes.

Mr. PETTY. This is one of the real problems with development to make sure that there is a recognition by the host country that it is not simply a matter of getting x dollars on a given date but there has to be local contribution and a followthrough on this.

Mrs. HANSEN. We are looking at the air transport projects. These are airports. This morning we just examined about a bill in American Samoa that is in the way of the 747's. It will require $2 million to cut that bill down so the 747's can land. The airline going in there has stated that they will have the jetplanes ready to go. This was not anticipated at the time of the original airport construction.

Air transportation seems to move rather fantastically fast. This is one of the developments that goes ahead in transportation.

When you borrow for an airport, before you have even finished the construction, it is necessary to put in improvements, which are substantially more costly than even the first investment.

We finance it all over the United States, as you are well aware. Port authorities are in debt.

Mr. PETTY. Look at the new dimension assistance has developed for our environment.

Mrs. HANSEN. You do not know what the price will be?

Mr. PETTY. That is right.

We have to share with the other countries of the world so they make their own provisions for their resources.

Mrs. HANSEN. I know we shared a lot of litter.

Mr. PETTY. We have indeed.

Mrs. HANSEN. I know States, counties, and cities that have gone ahead and issued bonds and put themselves on long-term financing, and today they are forced to borrow more. They do not have the credit they once had, neither do they have the faith of the taxpayers to the extent that they would like to have it.

They find themselves confronted with the necessity to put in improvements when the others are not even paid for. This is the great problem of loans.

Take highways, for example. The tunnel and bridge across the Chesapeake on the Eastern Shore is a classic example of what can happen in the financing field. The cost to the user has been so great that the development cannot go ahead and return the capital it has to.

It cannot make the payments. They are going to be faced with some rather harsh alternatives in the finance field. The same thing is true all over the United States. If it is true in the United States, can you imagine what it will be in these countries that have a severe problem of providing even the fringes of social benefits to their people, like housing, sewers, water, lights, good nutrition for children, good education. These are some of the things that I think the United States ought to be thinking about in its world relations.

Mr. PETTY. This is exactly the focus that we have on this Asian Development Bank. It is to provide this type of concessionary lending terms just because there are these gripping needs in the recipient countries.

It has a multiple effect by getting other donor countries matching on the same type of soft terms.

Mr. SHRIVER. You mean countries other than the ones receiving the money?

Mr. PETTY. Yes.

Mr. SHRIVER. Also, there are to be local contributions from the Government.

Mr. ZAGORIN. That is right. And the problem of the foreign debt burden is a major factor in the concessionary loans.

Mrs. HANSEN. When you look at the U.S. public debt interest payment of $18 billion per year at the present time, think of what that $18 billion would buy.

TOTAL RESOURCES NEEDED FOR SPECIAL FUNDS

Mr. SHRIVER. In the statement you said there are two sources of capital for these special funds: the Bank can set aside up to 10 percent of its unimpaired paid-in capital and the Board of Governors recently voted to set aside $14,575,000 for this purpose. The second was special contributions from Japan and the Netherlands, and hopefully from the United States.

How much is needed? If they have already set aside $14.6 million, which is not even 10 percent of your unimpaired paid in capital, you have not reached that point yet; have you?

Mr. ZAGORIN. No, sir.

Mr. SHRIVER. How much is needed beyond the 10 percent of your unimpaired, paid-in capital?

Mr. ZAGORIN. Mr. Shriver, let me put it this way.

Mr. SHRIVER. Is there any limit to what the need is?

Mr. ZAGORIN. The capacity of the Bank to use is probably much greater than the amount which would be made available by contributing countries. It is my own feeling that the limitation will come more from what the contributing countries will be prepared to give.

We will reach the limit of 10 percent.

Mr. SHRIVER. When?

Mr. ZAGORIN. Whenever the Board of Governors decided to do it. The Board of Directors has not yet put a proposition but my guess is within a year.

Mr. SHRIVER. Do you have approved loans waiting for this money?

Mr. ZAGORIN. Yes; we have approved $22 million of loans from Special Funds.

Mr. SHRIVER. $22 million more?

Mr. ZAGORIN. No; we have committed $22 million of loans from special funds.

Mr. SHRIVER. You have not used up all the 10 percent?

Mr. ZAGORIN. No, sir; we have not used the 10 percent as such, because the $22 million of loans can be financed from the 10 percent set aside as well as from special funds contributed by donor countries.

Mr. SHRIVER. What would the 10 percent figure be?

Mr. ZAGORIN. Of the unimpaired capital?

Mr. SHRIVER. Yes.

Mr. ZAGORIN. The paid-up capital will be nearly $500 million by August 1970, which means 10 percent of that would be around $50 million. Something under $50 million.

Mr. SHRIVER. You have applications for loans in excess of $50 million?

Mr. ZAGORIN. Yes; we expect to have.

Mr. SHRIVER. You expect to have?

Mr. ZAGORIN. Applications I would say not in terms of——

Mr. SHRIVER. Are these applications for soft-term loans?

JAPANESE CONTRIBUTION TO SPECIAL FUNDS

Mr. ZAGORIN. It would be far in excess of that. Also we do have money which the Japanese indicated they would be prepared to give, $100 million.

Mr. SHRIVER. Let me ask you, are we getting into this Special Fund because the Japanese are getting into it? Are they insisting that we contribute?

Are we going to get into this because Japan is putting in additional money?

Mr. ZAGORIN. No, that is not the only reason. I would not say they are insisting. I think we have decided that this would be a good thing to increase the facility of the Bank and to have——

Mr. SHRIVER. Will Japan put in additional contributions whether or not we put in any?

Mr. ZAGORIN. So far the Japanese have given $40 million and we have not given any. Whether they would give additional contributions, I could not say.

Mr. SHRIVER. How much have they put in?

Mr. ZAGORIN. In special funds they have put in $40 million.

Mr. SHRIVER. Into the Bank?

Mr. ZAGORIN. Yes. We have each subscribed $200 million.

Mr. SHRIVER. They have actually put in $40 million more than we have.

Mr. PETTY. That is right, and they have $30 million before the Diet right now for additional funds.

Mrs. HANSEN. How much is Japan spending in Vietnam?

Mr. PETTY. Directly, none.

Mr. SHRIVER. How much have you loaned from the special fund?

Mr. ZAGORIN. $22 million. We have a number of applications which we are processing.

Mr. SHRIVER. That would exceed the $50 million?

Mr. ZAGORIN. Yes.

SOFT LOAN APPLICANTS

Mr. SHRIVER. You named a few. Would you put in the record some of these applicants so that we would know what you are talking about?

(The information follows:)

The Bank has about 30 loan applications pending. Examples of projects which might qualify for special funds financing among those now pending are: An irrigation project in Afghanistan, a power transmission project in Cambodia, a fertilizer plant in Indonesia, and an agricultural development project in Laos.

Mr. SHRIVER. You mentioned a loan for Laos. What kind of contribution could that country make toward the repayment of a soft loan in any conceivable future period of time?

Mr. PETTY. Laos is certainly a country with the fewest available resources when your land is half ravaged by a foreign army or armies.

Mr. SHRIVER. I understand all this. We are talking about loans and the contribution that you said was one of the great advantages, that is, the Government itself was making a contribution. What ability does Laos have of repaying the loan?

Mr. PETTY. The contributions they make are from their own local budget for which they have some taxing revenue. Actually Laos is an example of a case where they get budget support as well.

Mr. SHRIVER. They get budget support from the United States?

Mr. PETTY. The United States and other countries such as Japan and England.

Mr. SHRIVER. We are probably still supporting under the supporting assistance appropriation their embassies all over the world except in France.

I am not convinced about the need for another form of a give-away feature, when we are already participating in so many.

Mr. HIRSCHTRITT. Mr. Shriver, Laos is an example of a country where it would not make sense making a loan on the hard basis of 6 or 7 percent.

Mr. SHRIVER. Nor even to call it a loan because we are kidding ourselves if we think we are going to get it back. We have a grant aid program in there and that is all.

Mr. PETTY. That is right. It is budget support.

Mr. SHRIVER. Thank you.

EFFECT ON BALANCE OF PAYMENTS

Mrs. HANSEN. You have one statement on page 7:

We do not foresee any cost to the U.S. balance of payments resulting from our participation in the Asian Development Bank.

Would you please tell me what is contributing to our great loss in the balance of payments?

Mr. PETTY. The thing that has been most pronounced in the last 2 or 3 years has been our increased imports resulting from domestic inflation that has been verging on the point of being out of control.

Mrs. HANSEN. And some of our tariffs.

Mr. PETTY. I think the second factor has been the continued high cost of military assistance.

The balance-of-payments cost of that is another factor unquestionably. I think we have had some large private capital outflows which have occurred probably because of the instability of the exchange market in 1969. I think those would be easily the most prominent factors.

Mrs. HANSEN. I saw a strange and interesting article in the paper the other day.

We have troops in Germany to aid in her defense, and at the same time Germany and the Soviet Union have made financial arrangements on the construction of a pipeline for gas going into West Germany from the Soviet Union, with a commitment for steel from West Germany for the construction of that pipeline. Why is it necessary for the United States to prop up the West German economy? Why do we have to keep on doing that, and providing a psychological defense or a factual defense against the Soviet Union when West Germany is arranging to transport gas for Russia which is an integral part of the basic economy of any country?

Mr. PETTY. Germany is importing gas in this case?

Mrs. HANSEN. Yes, it is importing gas from the Soviet Union.

Mr. PETTY. Germany is developing for its own strength an additional source of natural power. I believe it is probably financing this on supplier credit terms.

Mrs. HANSEN. I am sure she is not suffering financially from our troops being over there.

Mr. PETTY. No. The direct and indirect cost of U.S. military umbrella in Western Europe is a very real and very large one. It has been the political judgment that the advantages we get from the whole NATO network and the reinforcing effect it has for our own national security is vital to this country's long term interests. This is an issue, again, that the President has indicated.

Mrs. HANSEN. I think he has some dim views on the subject.

Mr. PETTY. I defer to the Department of State.

Mrs. HANSEN. They will be up. The Department of State can justify anything. Mrs. Reid, do you have any questions?

AMOUNT OF ORDINARY CAPITAL AVAILABLE FOR OTHER PURPOSES

Mrs. REID. Thank you, Mrs. Hansen. Does the Bank have within its charter the right to change the proportion of its resources that will be used for soft loans, technical assistance or special funds?

Mr. ZAGORIN. The Bank's articles of agreement limit the proportion of the Bank's ordinary capital which may be used for soft loans (special funds) and for grant technical assistance.

Article 19.1(i) permits the Board of Governors of the Bank, by a vote of two-thirds of the total number of Governors representing three-fourths of the total voting power of the members, to set aside not more than 10 percent of the unimpaired paid-in capital of the Bank for special funds. Acting within that authority, the Board of Governors, at its second annual meeting in April 1969, voted to set aside for special funds 10 percent of the convertible currency portion

of the paid-in capital which had been paid by members as of that time; this amounted to $14.575 million.

Article 21(vi) permits the Bank to finance grant technical assistance from its net income, or, in the first 5 years of its operation, to use up to 2 percent of its paid-in capital for such purposes. To date the Bank has not dipped into capital for such purposes, but has financed grant technical assistance from its income.

BOND SALE IN GERMANY

Mrs. REID. It is stated that there are no present plans for raising capital in the United States through bond or other security sales. Could you give us some idea of when you think the Bank might turn to this method of raising capital?

Mr. ZAGORIN. In September of 1969 the Bank floated 60 million Deutsche marks (about $15) million equivalent) of 7 percent bonds in Western Germany. While it is expected that the Bank may float one or two bond issues in Europe during 1970, the Bank has no present plans to raise funds in the United States through bond sales.

Mr. REID. What effect would the sale of Asian Development Bank bonds in the United States have on our balance of payments?

Mr. ZAGORIN. In the short run, to the extent that the initial proceeds of ADB bonds sold in the United States were not used for procurement in the United States, an outflow would result; to the extent such proceeds were used for procurement in the United States there would be no effect on balance of payments. In the long run, however, repayments on the bonds plus interest payments plus procurement in the United States would result in a net inflow in the balance of payments.

Mrs. REID. Are any member nations in default in their contributions to the Bank at this time?

Mr. ZAGORIN. No members of the ADB are in default on their payments on capital subscriptions.

EFFECT OF VIETNAM WAR ON BANK OPERATIONS

Mrs. REID. Has the Vietnam war had any direct or indirect effect upon the Bank or its activities—and if that war should be brought to a conclusion, what effect—if any—would it have on the Bank?

Mr. ZAGORIN. The war in Vietnam has had no direct effect on the Bank's operations. The Republic of Vietnam is a member of the Bank and has received technical assistance from the Bank in the field of development banking. Following the conclusion of hostilities the Bank could play an important role in marshalling resources for the development of Vietnam and the neighboring region. The Bank already has in progress a study of Southeast Asia's economy in the 1970's which promises to be of value in making plans for the future development of the region.

Mrs. HANSEN. The committee will adjourn.

WEDNESDAY, FEBRUARY 25, 1970.

SUBSCRIPTION TO THE INTERNATIONAL DEVELOPMENT ASSOCIATION

WITNESSES

JOHN R. PETTY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, TREASURY DEPARTMENT
ROBERT E. WIECZOROWSKI, U.S. EXECUTIVE DIRECTOR, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
EMMETT J. RICE, ALTERNATE U.S. EXECUTIVE DIRECTOR, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
RALPH HIRSCHTRITT, DEPUTY TO THE ASSISTANT SECRETARY FOR INTERNATIONAL FINANCIAL AND ECONOMIC AFFAIRS, TREASURY DEPARTMENT
MICHAEL BRADFIELD, ASSISTANT GENERAL COUNSEL FOR INTERNATIONAL AFFAIRS, TREASURY DEPARTMENT
HAL F. REYNOLDS, INTERNATIONAL ECONOMIST, OFFICE OF INTERNATIONAL FINANCIAL POLICY COORDINATION AND OPERATIONS, TREASURY DEPARTMENT
ERNEST C. BETTS, JR., DEPUTY ASSISTANT SECRETARY FOR ADMINISTRATION, TREASURY DEPARTMENT

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Program by activities: Investment in International Development Association (costs—obligations) (object class 33.0)	160,000	160,000	160,000
Financing: Budget authority (appropriation)	160,000	160,000	160,000
Relation of obligations to outlays:			
Obligations incurred, net	160,000	160,000	160,000
Obligated balance, start of year	139,900	263,600	333,600
Obligated balance, end of year	−263,600	−333,600	−403,600
Outlays	36,600	90,000	90,000

Mr. PASSMAN. The committee will come to order.
Mr. Director, do you have a statement to make to the committee?

GENERAL STATEMENT OF U.S. DIRECTOR

Mr. WIECZOROWSKI. Yes, sir. Mr. Chairman and members of the committee, I appreciate this opportunity to appear in behalf of the administration in support of a fiscal year 1971 appropriation of $160 million for the International Development Association. I feel especially honored since this is my first appearance before this committee since I assumed the office of U.S. Executive Director last fall. In the few months I have served in my new capacity I have been impressed with the professional competence of the World Bank/IDA organization. I am equally impressed with the significance of IDA, and the need for it.

The request before you is for the final installment of three equal annual contributions by the United States of its share in the second replenishment of the International Development Association (IDA). This appropriation was authorized by H.R. 33, passed last year. That legislation also authorized the U.S. Governor of IDA to agree on behalf of the United States to contribute $160 million as our share in each of the years 1969, 1970, and 1971. As a result of this wise action of the Congress, the second replenishment went into effect as soon as Secretary Kennedy notified IDA of the U.S. pledge.

Under this replenishment, the 18 economically advanced member countries of IDA plus Switzerland are providing IDA with $1.2 billion of additional resources over a 3-year period.

The U.S. participation in the replenishment represents 40 percent of the $1.2 billion total. This reflects some further decrease in our share in comparison to the initial subscriptions to IDA of the economically advanced countries in 1960, and their funding of the first replenishment in 1964.

In addition, as this committee knows, an integral feature of the agreement is an assurance that if the United States so requires, there will be no adverse effect on our balance of payments through at least the end of fiscal year 1971. This will not only prevent any impact on the U.S. balance of payments this year, but will also lighten the impact on fiscal year 1971 budgetary expenditures.

Under the agreement, if our current payments imbalance persists, we will provide in cash until at least fiscal 1972, and as long thereafter as other contributors' shares in the replenishment are not exhausted, no more than amounts required for IDA-financed purchases in the United States. In other words, the agreement provides that cash payments by the United States—to the extent required for purchase in other countries—will be postponed until after contributions of other countries have been fully used. This arrangement does not affect the World Bank's and IDA's traditional system of international competitive bidding.

The budgetary aspects of our contributions are fully consistent with the administration's efforts to exercise maximum restraint on total Federal expenditures. The annual U.S. contributions are made in the form of letters of credit which are drawn upon only as IDA needs cash to meet its disbursements. Cash calls on the U.S. contribution cannot exceed our pro rata share of total calls, and are substantially less than our share while the U.S. balance-of-payments situation requires continuation of the agreed safeguards. Actual budgetary expenditures during the period fiscal years 1969–71 are therefore only a fraction of the amounts appropriated in these years.

I am fully convinced that participation in IDA effectively serves the U.S. national interest. IDA history shows that it stemmed from an American idea and has received bipartisan support of four Presidents, Members of Congress and many other leaders in American national life. Indeed, IDA was created primarily as a result of a 1958 U.S. congressional initiative. The need for IDA today is no less pressing than when President Eisenhower strongly recommended its formation—pointing out that, "The well-being of the free world is vitally affected by the progress of the nations in the less developed areas."

The subsequent expansion of IDA's operations was encouraged and approved by Presidents Kennedy and Johnson. IDA now has the full support of President Nixon.

The establishment of IDA in 1960, and the agreement to provide it with additional and larger resources in 1964, were, in effect, commitments by other nations to a more equitable sharing of the foreign assistance burden. The second replenishment represents additional progress in that direction. For every $2 contributed by the United States other nations contribute $3.

IDA credits are provided to the poorest nations of the developing world—and they urgently require the assistance that IDA provides. If these nations are to progress, they must have access to credit on terms they can meet—specifically, to credits that can be repaid on easier terms over a longer period of time. For these countries not to have access to IDA credits would be self-defeating, because mounting debt-servicing costs would drain away the funds provided, and required, for economic growth. This is why IDA credits are made for a term of 50 years, with repayment commencing after a 10-year period of grace. Thereafter 1 percent per annum of the principal is repaid for 10 years, and 3 percent per annum for the remaining 30 years. No interest is charged on the credit, but a service charge of three-fourths of 1 percent annually is made on amounts disbursed and outstanding in order to provide IDA with funds to meet its administrative costs. IDA credits, like the Bank's loans, must be repaid in hard currency.

As a multilateral agency, IDA offers important advantages: The sharing of financial costs with other industralized countries; the objectivity of an international institution; the broad and collective experience of its member nations; the opportunity to exercise leadership in the development effort.

IDA is also strengthened by its direct affiliation with the World Bank. Because it is directed by the same President, guided by the same Board of Directors and Governors, and utilizes the same expert management and staff, we can be certain that its funds will be expended prudently. IDA applies the same strict standards of project appraisal and end-use supervision as does the World Bank itself. In addition, like the Bank, IDA will lend only to the countries which are taking adequate self-help measures and pursuing economic policies conducive to sound development. The only fundamental difference is that IDA provides funds in cases where the borrowers need more favorable foreign currency repayment terms than the Bank can provide.

IDA made its first development credit in May 1961. Through January 31, 1970, it had extended credits amounting to $2.3 billion in 52 countries and territories. Approximately $1.7 billion has been disbursed to date. While there was a delay in the time in which this current replenishment went into effect—a delay with which this committee is familiar—the rate of contemplated credits this year and next is expected to result in the resources being fully committed during the replenishment period. As you know, the two largest borrowers have been India and Pakistan which has received IDA credits within the framework of the World Bank consortia organized for these countries. The committee has been assured that under the second replenish-

ment IDA intends, consistently with its strict performance standards, to achieve wider geographic diversification in its lending activities. This is being carried out.

Up to now most of IDA's funds have gone into transportation and other basic economic infrastructure. Recently, however, increased emphasis has been given to agricultural and educational projects in the realization that improved agricultural productivity and trained manpower also are essential prerequisites of economic development.

The United States joins with other nations through IDA in a common effort to contribute toward a solution of the problem of econmic development affecting hundreds of millions of people. The second replenishment of the institution was an essential step forward toward greater emphasis on multilateralism and equitable burden sharing in the field of foreign aid.

The appropriation we seek today will enable the United States to continue to carry out carry out its share of the IDA agreement.

The budget for 1971 which you now are considering requests this appropriation. I respectfully urge this committee to approve this request.

I, together with my colleagues here today, will be glad to answer any questions.

BIOGRAPHY OF U.S. DIRECTOR

Mr. PASSMAN. We will insert the biography of our new U. S. Executive Director of the International Development Association at this point in the record.

(The biography follows:)

BIOGRAPHICAL STATEMENT OF ROBERT E. WIECZOROWSKI (UNITED STATES)

Executive Director for the United States.
Appointed as of November 4, 1969.
Born: July 1, 1927.
Married: two children.
Education:
1951: B.A., Yale University.
1958: Juris doctor, Loyola University.
Background:
1946–47: 1st Cavalry Division, Japan.
1951–52: Execctive secretary, Chamber of Commerce, Norwich, Conn.
1952–54: First lieutenant, U.S. Marine Corps, Korea.
1955–69: A. G. Becker & Co., Inc., Chicago, Ill., in retail sales and since June 1965 as vice president.
1966–67: Director, Mid-America Development Association.
Since November 1969: Executive Director, IBRD, IFC, and IDA.
Other activities:
1955–56: Founder and lifetime director, the Canyon, Inc.
1962: Director, Citizens Honest Election Foundation.
Since 1956: Member, Chicago Council on Foreign Relations; as president (1964–66).
Since 1958: Member, Chicago Bar Association.
1968–69: Director, USA–UNA of Chicago.

BUDGET ESTIMATE FOR FISCAL YEAR 1971

Mr. PASSMAN. We shall take up this afternoon the budget request for $160 million for fiscal 1971 for the International Development Association.

I believe this is the same amount that we appropriated last year, and this is the final installment of this commitment, is that correct?

Mr. WIECZOROWSKI. Yes, sir; for the second replenishment.

Mr. PASSMAN. It is the third replenishment, is it not?

Mr. WIECZOROWSKI. Third installment of the second replenishment.

Mr. PASSMAN. The third and final installment of the second replenishment. Do you have a request for any other organization other than this one?

Mr. WIECZOROWSKI. No, sir.

Mr. PASSMAN. Then my statement would be accurate, would it not, that this is the third and final installment on our commitment?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. And there is no other commitment outstanding, is that correct?

Mr. PETTY. That is right, Mr. Chairman.

BALANCE OF PAYMENTS

Mr. PASSMAN. Don't be stingy with information. We don't misuse it. We will try to be completely fair about it. It is perfectly obvious that my type of interrogation is not of the extremely pleasant, cordial type, but it is never intended to be personal. It is never intended to convey sarcasm. But we do have many problems confronting us in the great land of yours and mine, and many of them are financial. I think we all know that our balance of payments in 1969 was the largest deficit in any year of the history of our great country, was it not?

Mr. PETTY. By one of two measures.

Mr. PASSMAN. I do not care how many measures. I am only making the one direct statement.

Mr. PETTY. By the liquidity definition it was worse. By the official settlement definition we had a strong surplus.

Mr. PASSMAN. You are getting into a lot of technicalities that you do not understand and no one else that reads this record will understand. If I say it is black, you will say it is white. It follows that the true balance of payments deficit is the worse in the history of our country as we understand it and in accordance with the tables I have been using.

Let me bring it to your attention so that you will know what I am trying to establish.

One bureaucrat will say we can make it look worse if you want us to, and another bureaucrat will say we can make it look better. It depends on what formula you are using. I am using the one I think is accurate and the one that has been given to us over the past several years. I did not change the formula to make it look better. This is the formula I am using, and have been using for years. It is still the worst, is it not?

Mr. PETTY. I am not disagreeing.

Mr. PASSMORE. If you are not disagreeing let us move along with the hearings. You like to argue and I do, too, but we want to get along with this hearing. According to a recent article of February 16, 1970:

The United States reported today, a deficit of $6.99 billion in its balance of payments for 1969, the worst year on record.

This is what our official records reported. I did not put out this press release.

Mr. PETTY. I am very familiar with it, sir.

Mr. PASSMAN. Is it accurate?

Mr. PETTY. I am not trying to be contentious. I am trying to point out there are two ways of measuring the balance of payments.

Mr. PASSMAN. Your way and my way. I use the method that had been in use for years, until the bureaucrats decided to change it, I guess to give a better picture.

If you use the new method it will look better and if you use the old method it will be worse.

I say I am not interested in that. I want to be completely accurate. This is put out by our Government. Are you willing to accept it if I am?

Mr. PETTY. I would be happy to, sir.

Mr. PASSMAN. That is good.

BORROWING FROM THAILAND

I believe when we look at our balance-of-payment record, there was surplus for 1968 in the amount of $93 million. We borrowed more than that from Thailand at 6-percent interest, repayable in 41½ years did we not, during the same year?

Mr. BETTS. I am not familiar with the terms. We did borrow $100 million in 1968.

Mr. PASSMAN. Then that $100 million we borrowed, in itself exceeded what we claim is a surplus by $7 million, isn't that true? We showed a $93 million surplus.

Mr. PETTY. That is correct, yes, sir.

Mr. PASSMAN. We had that surplus not by increasing our exports or improving our fiscal conditions, as we think of them in general terms of commerce, but by borrowing money from nations who had accumulated a foreign exchange surplus.

TERMS OF BORROWING

Gentlemen, the reason I bring this up is that we all know that this lending program of the International Development Association is the worst type of foreign aid that we have. Let us make the record for what it is.

I am certainly not going to hold you responsible. You are only moving on legislation. But under the International Development Association's policies and programs, the borrowing nation can borrow up to 50 years as a maximum, is that right?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. Also, the borrowing nations are given a 10-year grace period before they start paying back the principal?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. As I read the testimony in previous years they pay no interest, only a ¾ of 1 percent service charge during this 10-year period, is that correct?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. Then after they start paying back the principal, they only pay 1 percent a year for the first 10 years, is that correct?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. Thereafter 3 percent of the principal per year for the next 30 years?

Mr. WIECZOROWSKI. That is right.

POTENTIAL RETURN OF FUNDS TO U.S. TREASURY

Mr. PASSMAN. Under the present arrangement there is no legislation or any statute that provides for any of these funds to ever be returned to the U.S. Treasury, is that correct?

Mr. WIECZOROWSKI. There would be provision——

Mr. PASSMAN. I am asking you to cite the statute where it says specifically when it will be returned to the U.S. Treasury.

Mr. WIECZOROWSKI. It is upon liquidation.

Mr. PASSMAN. They are going to bury me when I die, too, but let us not get to the cemetery yet. There is no provision yet for any of this money to be returned to the U.S. Treasury as this 1 percent per year comes in, is that correct?

Mr. WIECZOROWSKI. Not on a specific date, no, sir.

Mr. PASSMAN. There is no provision it will ever be returned, short of liquidation of IDA, is that correct?

Mr. WIECZOROWSKI. Actually if the U.S. withdrew at some time that would also result in money coming back.

Mr. PASSMAN. If the U.S. withdrew from IDA as of now all the money we put up will be repaid?

Mr. WIECZOROWSKI. As money came in our pro rata share would come back.

Mr. PASSMAN. In other words, if we were willing to wait 10 years, then we would get back 1 percent of what we had paid in?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. Would you cite the statute and put it in the record at this point?

Put something in the record that the readers can understand.

Mr. WIECZOROWSKI. We will supply it for the record.

(The information follows:)

The U.S. contributions to IDA constitute long-term capital investments. Under the articles of agreement of IDA this investment may be liquidated and the funds invested returned to the United States if this country exercises its right to withdraw from IDA (article VII, section 1), or if the Association permanently suspends its operations (article VII, section 5).

In the case of withdrawal, article VII, section 4(b) provides that the government of the withdrawing country "may agree on the amounts to be paid to the government on account of its subscription and on the time and currencies of payment." In general, it is provided that if no agreement can be reached within 6 months from the date of withdrawal, or within some other period agreed upon by the parties, the Association shall return to the Government the uncommitted funds held by the Association which were paid in by the Government on account of its subscription or derived therefrom as principal repayments (article VII, section 4(c)(ii). Subsection 4(c)(iii) of article VII requires the Association to pay over annually to the withdrawing member a pro rata share of principal repayments received by the Association in connection with those funds which were already committed under the Association's financing operations as of the day of withdrawal. In determining a member's pro rata share, account is taken

only of subscriptions which were used or will be needed to meet commitments made prior to the date of the withdrawal. Section 5 of article VII of the articles of agreement provides for a similar settling of accounts in the case of a permanent suspension of activities and liquidation of the Association.

Mr. PASSMAN. Have you ever had an opportunity to visit these foreign parliaments and listen to some of the debate? If they put up their tidbit, Uncle Sam will put up 40 percent.

Mr. WIECZOROWSKI. No, sir; I have not.

Mr. PASSMAN. You ought to listen sometime to some of them. Have you ever read the arguments of the Parliament how they plead for their 1- or 2-percent contribution so they can get Uncle Sam's 40 percent? If I send you some will you read them?

Mr. WIECZOROWSKI. Yes, sir.

RECIPIENTS OF IDA LOANS

Mr. PASSMAN. I believe as we think in terms of IDA, most of the recipients are former colonies of some of the other contributors, are they not, like the United Kingdom and France, where they have strong ties?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. What do we get out of IDA? Do we borrow any money from IDA as such?

Mr. WIECZOROWSKI. No, sir.

I have been advised that the legislature in at least one country actually is pushing to increase, and I do not believe they have any particular benefit from that.

Mr. PASSMAN. I hope they are not successful because we find some of the members get back seven times as much as they pay in.

Are you familiar with that?

Let us name the largest recipient of this program. Is it India?

CONTRIBUTION BY INDIA TO IDA AND LOANS RECEIVED BY INDIA

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. How much has India contributed to IDA since the inception? This information is valuable for both sides of the table. Let us make the record, because if you can put a dollar into something and get back seven, you would be for it, too.

Mr. WIECZOROWSKI. India's subscription was $40,350,000.

Mr. PASSMAN. Isn't that commendable? Do you know the amount of loans India received? $1,092,600,000. We have made the point, have we not?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. Would you not also put in a little tidbit?

Mr. PETTY. It demonstrates the great need——

Mr. PASSMAN. I am not asking you any questions at this point, Mr. Secretary. I will get to you later. I am asking the man who is our Director. Don't put yourself on the defensive.

I did make a statement of fact with respect to the fact that India paid in $40 million and got back $1,092,600,000?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. You are the Executive Director of the World Bank?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. This is your program and that is why I am directing the questions to you to see if you and I can reach an agreement as to what it is about.

If we do that I am satisfied.

Mr. WIECZOROWSKI. Would it be helpful to identify India as a part 2 country at this point?

Mr. PASSMAN. Surely, while we are doing that let us also identify it as recipient of over $7 billion of U.S. bilateral aid.

This is just one little bit. Our direct aid to India has been something like $7 billion. That is a lot of money, is it not?

IDA INVESTMENTS IN U.S. SECURITIES

Is IDA using its surplus funds to invest in securities temporarily? I am speaking of Government or corporation securities.

Mr. WIECZOROWSKI. IDA generally does not have what you would call large surpluses relative to the amount handled because they draw against letters of credit. It does put such money as it has available at any time that is not immediately committed into Treasury bills or similar kinds of instruments.

Mr. PASSMAN. They are buying some U.S. securities?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. What terms?

Mr. WIECZOROWSKI. There are purchases of Treasury bills.

Mr. PASSMAN. I know, but if we might, Mr. Director, let us establish for the record the minimum and the maximum. Are you buying any 3-year notes?

Mr. WIECZOROWSKI. I am sorry, I misunderstood. The term would be generally under 12 months in IDA.

(The information follows:)

Unlike the Bank, IDA does not have a substantial pool of free funds to invest. It actually maintains a rather small cash balance. And this comes from several sources: (1) Part of the initial subscription to IDA; (2) through calls on notes deposited by the donor nations—the calls executed only to meet disbursement requirements, and (3) through advance cash contributions by a certain few industrial countries other than the United States.

Undisbursed funds are invested in securities temporarily. IDA does not invest in corporate securities, only Government securities. And these usually consist of U.S. Treasury bills of a few months duration, mainly 3 and 6 months. IDA at one time held 3-year notes but does not currently.

At the end of January 1970 IDA had about $170 million in undisbursed funds invested in Government securities. More than half of this was in U.S. Treasury bills. A large portion, however, was invested in German Government securities, since about $66 million represented advance contributions to IDA by the West German Government.

Mr. PASSMAN. But they are buying some U.S. Treasury notes or bills and they are accruing some interest to the credit of IDA from buying those notes.

If you reverse it, it is the equivalent of making loans to the U.S. Government; is it not?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. Since we are giving our money to them absolutely free, I wonder why they could not reciprocate and let us borrow back the part that is idle on the same terms we gave it to them. It is bad enough to go out and borrow from the American taxpayer and pay up to 7½ percent for the money and give it to them free, and then let them turn around and loan it back to the U.S. Government at 7½ percent.

Why don't you give some thought to developing a procedure where, if they have surplus funds available for 12 months, then since the recipient nation had to borrow it to give it to them, let us have it back on the same terms—interest free—because it is the equivalent of making another contribution; isn't it?

Mr. WIECZOROWSKI. I am not sure.

Mr. PASSMAN. If we have to pay IDA 7½ percent on money we originally gave them which they use to buy Treasury notes or bills, that is really making an additional contribution; is it not, to the fund?

Mr. WIECZOROWSKI. To the extent that we borrow to make the payment.

Mr. PASSMAN. That is right. I am trying to be completely fair about it. It is prety hard for a man, on any reasonable basis, to make a case for this giveaway program. This is the worst conceivable type of foreign aid, and yet a lot of people voted for this because it is not a part of the Foreign Assistance Authorization Act.

I believe under our so-called bilateral foreign aid, the so-called Development Loan Fund, the maximum term is 40 years; is it not?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. We do get an interest rate of 3 percent; do we not?

Mr. PETTY. Yes, sir.

TYPES OF AID

Mr. PASSMAN. Let me make my case now, Mr. Secretary. We are promised 3 percent. I want the record to show what it is. That is paid directly back to the U.S. Government; is it not?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. If we want to look at IDA's deal where the term is 50 years with no interest and no provisions to be paid back, isn't that a worse type of aid than a type where you tie in the sale of American commodities for 40 years at 3 percent interest and the proceeds are paid directly to the Treasury?

Wouldn't you call that a better brand of foreign aid if we are just looking at the various brands?

Mr. WIECZOROWSKI. I am afraid as U.S. Director of this organization I feel the quality of aid is an important factor.

Mr. PASSMAN. We are not discussing quality. We are discussing the cold facts of life. A gift or a loan on 50 years, no interest, 10-year grace period, with no provision for anything to come into the U.S. Treasury is not as good as the type of aid on 40 years with the 3 percent that is paid directly to the Treasury, is it, sir?

Mr. PETTY. In terms——

Mr. PASSMAN. The Director has not delegated you to answer for him. When they give you this job, I will interrogate you and let him sit over there and let him observe for a while.

Mr. WIECZOROWSKI. I am happy to have help.

Mr. PASSMAN. Would you say——

Mr. WIECZOROWSKI. I would say on the mathematics you presented I agree with your case.

Mr. PASSMAN. I want to thank you very much. We want facts and not elaborations.

COST TO TAXPAYER OF MONEY BORROWED TO GIVE TO IDA

If this request is approved, according to your justifications, the United States then will have provided $1,112,290,000 to the Association, is that correct, Mr. Director?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. During the past 38 years in our Government, we have had a deficit in 32 of those years on the administrative budget. Isn't that correct?

Mr. BETTS. I think that is right.

Mr. PASSMAN. Assuming that is correct, we are now paying, I believe, about 7 percent interest, using that as an average, on the money we are presently borrowing, is that correct, Mr. Secretary? Now you can help answer.

Mr. PETTY. Yes, sir, that is what it cost us to borrow 90-day money last week.

Mr. PASSMAN. What would this $1,112,290,000 cost us for 1 year? Do a little arithmetic.

Mr. PETTY. If you include the taxes we earn on interest of corporations that get this money.

Mr. PASSMAN. I just want the interest on this amount for 1 year.

Mr. PETTY. The cost of borrowing $1,112 million at 7 percent is a little over $70 million.

Mr. PASSMAN. Now we will make the point. On this $1,112,290,000 that we borrowed to give the International Development Association we have to pay from whomever we borrowed it, approximately $70 million a year in interest.

Mr. WIECZOROWSKI. No, sir.

Mr. PASSMAN. That is what he said.

Mr. PETTY. That was a different question, sir.

Mr. PASSMAN. We borrowed the $1,112 million, did we not?

Mr. WIECZOROWSKI. No, sir.

Mr. PASSMAN. This is what we have given the Association.

Mr. WIECZOROWSKI. No, sir.

Mr. PASSMAN. How much have you given them?

You answered $1,112.290,000 when I asked you the question earlier. Let us take off $160 million. Is that what you are arguing about?

Mr. WIECZOROWSKI. No.

Mr. PASSMAN. What is your point then?

Mr. WIECZOROWSKI. I agreed with you on $1,112,290,000 as our commitment to the present time.

Mr. PASSMAN. How much have you paid into the Association? I am perfectly willing to stand corrected if you have not paid it all in.

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

Mr. PASSMAN. Then the amount of commitment is $1,112,290,000. What have you paid into the Association?

Mr. WIECZOROWSKI. Our payments to date are approximately $540 million.

Mr. PASSMAN. Very well, we will do some more arithmetic. What is 7 percent interest on $540 million?

Mr. WIECZOROWSKI. It looks like $37 million.

Mr. PASSMAN. I will accept that. We are going to have to pay $37 million per year on the amount of money we have given to IDA until we either repudiate it or pay it back; is that right?

This goes on and on until this debt is liquidated. The interest rate may go up or down, but if it averages out at 7 percent then it is costing us $37 million a year to borrow this money to give to IDA.

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. This is another way of showing what we are doing to the American people. What is the age of the IDA?

Mr. WIECZOROWSKI. It is in the 10th year.

Mr. PASSMAN. So in 10 years we have paid this $540 million?

Mr. WIECZOROWSKI. Yes, sir.

AVERAGE ANNUAL PAYMENT TO IDA

Mr. PASSMAN. And the average rate that we pay in per year?

Mr. WIECZOROWSKI. Would you take a simple answer?

Mr. PASSMAN. Whatever you give me. We are trying to establish without any doubt that you do not need this $160 million appropriation, and I think you will admit that you do not when we finish our examination. Simple answers will establish it. It does not take any expert to ask the question or to answer it either.

Give us the average you have paid over to IDA per year. Some of your mathematicians will help you—$540 million over ten years, would be $54 million per year. Isn't that accurate?

Mr. WIECZOROWSKI. That is not the way it was paid in, sir.

Mr. PASSMAN. I asked the question as to what has been the average pay in per year and that is $54 million.

Mr. WIECZOROWSKI. That is right.

UNDISBURSED FUNDS

Mr. PASSMAN. Now, assuming that with money as scarce as it is, and it is tight, so I am told, the next question would be, how much do you have on hand that was previously appropriated?

Mr. WIECZOROWSKI. The undisbursed——

Mr. PASSMAN. Undisbursed meaning unpaid to the Association.

Mr. PETTY. That is right, sir.

Mr. WIECZOROWSKI. $380 million.

Mr. PASSMAN. Let us divide that by $54 million and see what we come out with.

Mr. WIECZOROWSKI. Approximately 7.

Mr. PASSMAN. Upon that basis, assuming things being tight and that we wanted to realign our payouts, on the basis of the average you would have on hand a 7-year supply of money.

Mr. PETTY. No, sir.

Mr. PASSMAN. Then you give me the answer. I have been asking for it.

Mr. PETTY. You measure the money available to IDA against the commitments of IDA.

Mr. PASSMAN. Never mind how you measure it. I am thinking about paying all that money into IDA and then IDA reinvesting it in U.S. securities.

UNCOMMITTED FUNDS OF IDA

IDA has uncommitted funds of $876 million, has it not?

Mr. PETTY. As of December 31, 1969.

Mr. PASSMAN. That is only about 50 days ago. Do not make it sound as if that was a century ago. You are talking about just a few weeks ago.

Mr. WIECZOROWSKI. The current figure that is relative to that figure is $849 million.

Mr. PASSMAN. Did you submit that to us to examine on?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Is that figure as of December 31?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. You already said the pay-in had been lower and higher in some years, but the average had been $54 million per year. Now you have $300 million and what on hand?

Mr. WIECZOROWSKI. I believe $380 million.

Mr. PASSMAN. If you divide $54 million into that figure, you do have, with respect to the amount of pay-in not committed, a 7-year supply of money on that basis even without this appropriation.

Mr. PETTY. Mr. Chairman, measured against the commitments——

Mr. PASSMAN. I am not talking about your measurements. I am not interested in your measurements. I am interested in the cold facts of life.

Let us not elaborate and muddle up the record so you won't understand it and nobody else will. I think it would be a good bet that we might not give you this, because after all is said and done things are getting pretty tight in this country.

We are closing down many projects in this country.

BALANCE OF PAYMENTS

You state in the justifications that a special feature assures that if the U.S. situation requires, there would be no adverse effect of the U.S. contribution on our balance of payments through at least the end of fiscal 1971.

I might say to the Director that it is a privilege, a prerogative, or a duty of this Committee on Appropriations to consider some $10 or $11 billion under the different spigots of foreign aid, when you include Export-Import Bank and so on, and do you know what the most surprising thing is? Not a single agency makes any contribution to our deficit balance of payments. Each one says don't put that on my back. When we get through all are completely innocent. Yet our balance-of-payments situation gets worse every year.

IDA PROCUREMENT

Mr. Director, what was IDA's procurement in 1968 and 1969? I would like to have the two figures if they are available.

Mr. PETTY. In 1968 the dollar amount was $44 million. In 1969 the dollar amount was $30 million.

Mr. PASSMAN. That was the total procurement of IDA?

Mr. PETTY. I am sorry, that is for the United States.

Mr. PASSMAN. I asked for the total procurement.

Mr. PETTY. The total procurement for 1968——

Mr. PETTY. $318.8 million for fiscal year 1968.

Mr. PASSMAN. What is our contribution to IDA?

Mr. PETTY. Forty percent of the total.

Mr. PASSMAN. Forty percent of the total.

What is 40 percent of $318 million?

Mr. PETTY. About $125 million.

Mr. PASSMAN. How much of the procurement was in the United States?

Mr. PETTY. For fiscal 1968, $44 million, disbursals.

Mr. PASSMAN. What did you say the figure was?

Mr. PETTY. The U.S. procurement for fiscal 1968 was $44 million.

Mr. PASSMAN. So we paid in 40 percent or we gave them 40 percent of the total, and they spent 14 percent in the United States.

Mr. PETTY. No, sir; we commit 40 percent of the total.

Mr. PASSMAN. Who is going to give me some direct answers and get away from commitments, disbursements, and paid in? I asked you specifically the amount.

Of all the money paid into the IDA, we pay 40 percent. Is that right, Mr. Secretary, that is our contribution?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. If we pay in 40 percent, it follows mathematically that what we pay out is 40 percent.

What was the worldwide procurement, first, in 1968?

Mr. PETTY. $318.8 million in fiscal 1968.

Mr. PASSMAN. We made that point. Then what was the amount of procurement in the same year in the United States?

Mr. PETTY. That was $44 million, and the United States paid in——

Mr. PASSMAN. Wait a minute, I am not talking about paid in. Whatever has been paid in, Mr. Secretary, 40 percent of it represents U.S. dollars, because we are 40-percent contributors. So whatever you pay out, 40 percent of it was U.S. funds. You are not going to change the formula.

Mr. PETTY. Mr. Chairman, when you include the contribution of earnings of the World Bank to IDA, the U.S. share of the money made available——

Mr. PASSMAN. Who can I direct some questions to in order to get some direct answers?

Mr. BETTS, are you privileged to answer questions?

Mr. BETTS. I can answer questions within my knowledge and ability. I am not familiar with these particular figures.

Mr. PASSMAN. I am familiar with them but I cannot get anybody to verify accurate figures. They want to insist that four is not four but seven.

IDA procured $318 million worldwide. Of that amount $44 million was procured in the United States, and $44 million represents 14 percent of $318 million. Yet in the overall our commitments to IDA, are 40 percent; is that right?

Mr. WIECZOROWSKI. Yes.

Mr. PASSMAN. Thank you.

Don't think I am not going to pin this down. You might as well make up your mind that I am, and let us get along.

Mr. WIECZOROWSKI. Overall it is 35 percent.

Mr. PASSMAN. I am not talking overall. I am talking about the facts of life that can be pinned down. I am not going to let you fill the record with answers that are not pertinent to my line of examination. We are not getting back one-third of what we are paying in and you know I know why. Our generosity has priced us out of the world market, and under the rules you operate by, you buy where you can buy the cheapest, if it is commodities; isn't that correct, Mr. Secretary?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. You are very fair. Isn't that the kind of record you want made?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Certainly it is. We have priced ourselves out of the world market.

You cannot have your cake and eat it, too. It is my responsibility to try to help make this record so you people will think twice before you come down and make a request for additional funds.

Mr. PETTY. In making the record fair I think it would be well to point out that the contribution we made to IDA is approximately 35 percent of the total IDA funds today.

Mr. PASSMAN. Even though our commitment is 40 percent, if you put it on that basis, just to help you make your case, 31 percent of the total and the procurement is 14 percent of the total. Is that fair enough?

Mr. HIRSCHTRITT. The U.S. share of IDA procurement was 15.4 percent of identifiable procurement in fiscal year 1968.

Mr. PASSMAN. We still pay in double what we get back through procurement by IDA in the United States.

Mr. WIECZOROWSKI. If we take the paid in figure, no. We have only paid in $540 million.

Mr. PASSMAN. Gentlemen, the case is made. If you want to insert the United States Code in the record at this point, submit it to us and we will put it in the record for you.

You people know very well that these other fellows are outsmarting us.

Who is president of the World Bank?

Mr. WIECZOROWSKI. Robert McNamara.

Mr. PASSMAN. Is that the former Secretary of Defense?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. He has been before the committee many times.

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. Tell him I am going to send him an autographed copy of these hearings. How is his health?

Mr. WIECZOROWSKI. Fine, sir. I told him yesterday I would be seeing you and he sent his regards.

Mr. PASSMAN. You give him mine, will you?

Mr. WIECZOROWSKI. Yes, sir.

(Discussion off the record.)

CONTRIBUTORS TO IDA

Mr. PASSMAN. Mr. Director, would you place a list in the record of the countries contributing to IDA and the contribution made by each nation? I am talking about paid-in now. The amount paid in and the amount the contributors have borrowed—I should not use that word "borrow" because it is a gift. Let me see if I can identify it without using the word "loan."

Let me put it this way: IDA, I believe, is to help what we call underdeveloped nations.

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. How many underdeveloped nations do we have who are making a contribution to IDA?

Mr. WIECZOROWSKI. Making a contribution to IDA?

Mr. PASSMAN. Yes.

Mr. WIECZOROWSKI. All of the members have to make a contribution as their initial subscriptions.

Mr. PASSMAN. I am trying to separate the nations like the United States and Germany from the underdeveloped ones. How many nations are members of IDA?

Mr. WIECZOROWSKI. It is 104 at the moment, I believe.

Mr. PASSMAN. Of the 104 how many are underdeveloped nations?

Mr. PETTY. All but 18.

Mr. PASSMAN. That would make 86, then, is that right?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. Eighty-six underdeveloped nations.

Would you put in the record at this point the amount actually paid in—not promised—the actual amount of cash that has been paid in into the treasury of the International Development Association by the 86 countries?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Will you also include in that table what the same 86 nations received from IDA?

(The information follows:)

USABLE SUBSCRIPTIONS AND SUPPLEMENTARY RESOURCES PAID IN TO THE INTERNATIONAL DEVELOPMENT ASSOCIATION, AND DEVELOPMENT CREDITS RECEIVED THROUGH FEBRUARY 28, 1970

[In thousands of U.S. dollars]

Member country [1]	Amount paid in [2]	Development credits	
		Commitments [3]	Disbursements [4]
Afghanistan	101.0	8,500	277
Algeria	403.0		
Argentina	1,883.0		
Australia*	55,980.0		
Austria*	15,520.0		
Belgium*	30,100.0		
Bolivia	106.0	25,800	16,129
Botswana	16.0	6,100	3,600
Brazil	1,883.0		
Burma	202.0		
Burundi	76.0	2,900	807
Cameroon	101.0	22,050	5,808
Canada*	129,530.0		
Central African Republic	50.0	4,200	17
Ceylon	303.0	23,900	242
Chad	50.0	5,900	137
Chile	353.0	18,998	18,998
China, Republic of	3,026.0	13,074	13,074
Colombia	353.0	19,500	19,500
Congo (Brazzaville)	50.0	630	316
Congo, Democratic Republic of	302.0	6,000	24
Costa Rica	20.0	4,550	4,550
Cyprus	76.0		
Dahomey	50.0	4,600	232
Denmark*	30,040.0		
Dominican Republic	40.0		
Ecuador	65.0	14,600	3,817
El Salvador	30.0	8,000	7,682
Ethiopia	50.0	31,900	20,364
Finland*	8,848.0		
France*	179,632.0		
Gabon	50.0		
Gambia	26.7		
Germany, Federal Republic*	203,560.0		
Ghana	236.0	16,300	6,773
Greece	1,386.0		
Guatemala	40.0		
Guinea	101.0		
Guyana	81.0	2,900	66
Haiti	76.0	350	350
Honduras	30.0	15,928	13,269
Iceland	100.0		
India	9,095.0	1,127,621	999,063
Indonesia	1,110.0	66,000	2,035
Iran	454.0		
Iraq	76.0		
Ireland	3,030.0		
Israel	1,680.0		
Italy*	48,160.0		
Ivory Coast	101.0		
Japan*	119,160.0		
Jordan	300.0	10,016	8,676
Kenya	168.0	42,600	25,581
Korea	126.0	43,293	25,810
Kuwait*	10,320.0		
Laos	50.0		
Lebanon	45.0		
Lesotho	16.0	4,100	4,100
Liberia	76.0		
Libya	101.0		
Luxembourg*	1,150.0		
Malagasy Republic	101.0	14,500	5,035
Malawi	76.0	32,750	7,564
Malaysia	252.0		
Mali	87.0	9,100	4,942
Mauritania	50.0	9,700	3,523
Mauritius	86.0		
Mexico	1,885.6		
Morocco	353.0	18,300	2,048
Nepal	50.0	1,700	
Netherlands*	63,760.0		
Nicaragua	30.0	2,995	2,995
Niger	50.0	7,619	2,062

See footnotes at end of table.

USABLE SUBSCRIPTIONS AND SUPPLEMENTARY RESOURCES PAID IN TO THE INTERNATIONAL DEVELOPMENT ASSOCIATION, AND DEVELOPMENT CREDITS RECEIVED THROUGH FEBRUARY 28, 1970—Continued

[In thousands of U.S. dollars]

Member country [1]	Amount paid in [2]	Development credits	
		Commitments [3]	Disbursements [4]
Nigeria	336.0	35,500	15,852
Norway*	2,520.0		
Pakistan	1,009.0	399,238	259,580
Panama	16.4		
Papua and New Guinea [5]		6,500	143
Paraguay	30.0	21,400	16,592
Peru	177.0		
Philippines	504.0		
Rwanda	76.0		
Saudi Arabia	370.0		
Senegal	168.0	15,000	5,639
Sierra Leone	76.0	3,000	
Somalia	76.0	9,050	4,116
South Africa*	16,080.0		
Spain	3,079.8		
Sudan	101.0	21,500	12,251
Swaziland	3.20	2,800	2,800
Sweden*	84,225.0		
Syrian Arab Republic	95.0	8,500	1,515
Tanzania	168.0	48,400	26,227
Thailand	303.0		
Togo	76.0	3,700	805
Tunisia	151.0	32,363	13,373
Turkey	580.0	92,452	76,199
Uganda	168.0	33,000	8,064
United Arab Republic	508.0		
United Kingdom*	331,420.0		
United States*	952,290.0		
Upper Volta	50.0	800	
Vietnam (South)	151.0		
Yugoslavia	4,040.0		
Zambia	269.0		
Total	2,345,069.5	2,370,177	1,672,620

[1] The 18 countries with asterisks are pt. I members, whose subscriptions, replenishment shares and supplementary contributions are paid in full in usable currency. The remaining 86 members are in the pt. II category; 10 percent of their subscriptions are paid in convertible currency, while 90 percent is in their own currency and usable only with their consent.

[2] Includes all funds actually paid in usable form: Pt. I subscriptions, paid-in replenishment shares and supplementary contributions; the paid-in 10 percent portion of pt. II subscriptions; and a total of $17,525,800 paid in convertible form by Ghana, Greece, Iceland, India, Ireland, Israel, Mexico, Panama, Spain, and Yugoslavia out of the 90 percent portion of their subscriptions as pt. II members.

[3] Includes $145,050,000 in credits which, while committed, will not become effective until the borrowers take various actions and provide certain documents required under the credit agreements.

[4] As of Jan. 31, 1970.

[5] Papua and New Guinea is not a member but is eligible as the territory of a member. The credit is guaranteed by Australia.

UNCOMMITTED FUNDS

Mr. PASSMAN. You state in the justifications that you have $876 million of uncommitted funds as of December 31, 1969. Does that mean uncommitted funds that have actually been paid into IDA?

Mr. WIECZOROWSKI. No, sir; that figure would include the present $160 million under discussion.

Mr. PASSMAN. In other words, this is the uncommitted balance of the committed funds, but which are not paid in.

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. The average disbursements are $54 million—and I want to be perfectly fair—in all probability that could increase, because this is the average for the 10-year operation. Of this amount, what part is committed, but not paid in?

I assume you would take the amount you have in the treasury in cash and subtract it from the total, and that leaves $876 million?

What I am trying to establish is whether this is the grand total or whether it represents that part that you can ask for? You have cash on hand.

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. If you are going to arrive at the amount committed and yet to be paid in, would you subtract the amount on hand?

AVERAGE ANNUAL PAYOUT OF FUNDS

Mr. WIECZOROWSKI. The figure of $876 million would include everything that has not yet been committed to a loan—funds to come in as well as funds presently available.

Mr. PASSMAN. You tie in your commitments into payouts. They are related, are they not?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. What is the total annual payout of IDA?

Mr. WIECZOROWSKI. $319 million for 1968, and $256 million for 1969.

Mr. PASSMAN. That is the highest ever?

Mr. WIECZOROWSKI. No, sir. There was a year when the figure was $342 million.

Mr. PASSMAN. What has been the average for the 10 years of its operation?

Mr. WIECZOROWSKI. The disbursements have not gone on for a full 10-year period.

Mr. PASSMAN. Let us take the period of its operation.

Mr. WIECZOROWSKI. If you were to take the last 5 years, if that would be helpful——

Mr. PASSMAN. IDA has been in operation 10 years. How many years have you been paying out?

Mr. WIECZOROWSKI. The first payout was in 1961–62, sir.

Mr. PASSMAN. 1961 to 1970 inclusive, isn't that 10 years?

Mr. WIECZOROWSKI. It is just coming up to that.

Mr. PASSMAN. 1961–70, inclusive, is 10 years.

Mr. WIECZOROWSKI. If you take the total disbursements, if you use the same method you used before, you would have a figure of $166 million. But the average recently would be somewhat higher than that. It would be closer to $250 million.

Mr. PASSMAN. Don't use it that way. If I ate high on the hog yesterday, that doesn't mean I will be able to eat high on the hog tomorrow. Somehow we have to put some common sense into all of these programs. You people get by with these highfalutin-sounding organizations when you attach a banking concept to them. It is a part of the World Bank, and it has some attraction to those people who are opposed to foreign aid. I want to be completely honest, because that is true. We have made the record and you agree that IDA lending, on the basis of its terms, is the worst type of foreign aid. What I am trying to do is to help you make a case that you do not need this money. I would rather you made the case, rather than me. I would like to make it with your answers.

What I say is not important. It is the answers that you give me that are important.

If you can tell us since the inception of IDA what your average annual payout has been in cash, then we can make a case.

Mr. PETTY. Mr. Chairman, $3,177 million are the total resources.

Mr. PASSMAN. Please, Mr. Secretary; you are so far ahead of me I cannot catch up with you. I am not interested in the $3 billion, as such. I am interested in the amount of cash that you have disbursed out of IDA since its inception.

Mr. WIECZOROWSKI. Approximately $1,660 million.

Mr. PASSMAN. Over a period of 10 years?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. How much is that per year? Just give the answer and we will have the record.

Mr. WIECZOROWSKI. It was not disbursed evenly.

Mr. PASSMAN. I am asking for the average, Mr. Secretary.

Mr. PETTY. The average over 10 years is $166 million.

Mr. PASSMAN. The average is $166 million. Assuming that things continue to tighten up, and we have to adjust this thing—and other nations may have to do likewise—to the average $166 million, then we would divide $166 million into $876 million to get the average.

Let us see what we have. I know this thing goes up and down. I am trying to strike an average here. On that basis, taking it overall, you would have a 5-year supply of money.

Mr. PETTY. If we were to cut back the operations——

Mr. PASSMAN. If you were to operate on the average, and not on the low or high. Is that a fair statement? I know you people love to spend money. It is just bound to be a lot of fun. I am trying to stop your fun.

We have made the record. That is all I wanted to do.

LOCAL CURRENCY ON HAND

Mr. Director, how much local currency does IDA have on hand?

Mr. WIECZOROWSKI. Approximately $61 million.

Mr. PASSMAN. How much so-called local currency have you utilized since the inception of the organization?

Mr. WIECZOROWSKI. I would have to supply that figure.

(The information follows:)

As of February 28, 1970, local currency subscriptions of part II members equivalent to $15,179,800 had been converted into usable form by nine part II countries, and used by IDA for procurement under credits in other countries. The part II members concerned and the amounts are: Iceland $90,000, India $5,060,000, Ireland $2,727,000, Israel $1,512,000, Jordan $270,000, Mexico $1,011,600, Pakistan $14,400, Spain $2,070,800, and Yugoslavia $2,424,000.

In addition, Yugoslavia has released another $1,212,000 for IDA's use, which will be paid on June 30, 1970, and Greece has announced that it will pay in $1,134,000 in such funds after July 1.

FIRST LOAN REPAYMENTS OF PRINCIPAL DUE IN 1971

Mr. PASSMAN. We are fast approaching the time where some of these nations who received these interest-free loans with a 10-year grace period will have to make a 1-percent installment payment on their loans; is that not right?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. Have any come due yet?

Mr. WIECZOROWSKI. No, sir. The first loan was made to Honduras in 1961, and it does not come due yet.

Mr. PASSMAN. Latin American countries are eligible for IDA borrowing?

Mr. WIECZOROWSKI. Yes, sir. Eleven countries presently have received IDA loans.

Mr. PASSMAN. All of them are eligible?

Mr. WIECZOROWSKI. Yes, sir; if they are members.

Mr. PASSMAN. You have 104 members.

ELIGIBILITY FOR LOANS

Mr. PETTY. Mr. Chairman, the current policy of the Bank is to loan to the least developed of the developing countries, and to use a $300 per capital income determination of what is least developed. Some of the Latin American countries, such as Mexico or Argentina, would not be eligible for IDA money, and Venezuela is not a member.

Mr. PASSMAN. They are all eligible, but you take the less developed nations first.

Mr. PETTY. Yes; it is an allocation of resources.

Mr. PASSMAN. Then, if you have anything left over, you get to the ones that are a little more developed. You are only dealing with a regulation. They could change it at any board meeting.

Mr. PETTY. It is a management policy decision.

Mr. PASSMAN. That is what I mean. They could change it this afternoon.

Mr. PETTY. Yes, sir. Venezuela is not a member of IDA.

Mr. PASSMAN. I hope you will not start making loans to countries that are not members. I am not suggesting that you do. How many employees do you have in IDA?

IDA STAFF

Mr. WIECZOROWSKI. The IDA staff is joint with the staff of the World Bank. The World Bank employment is approximately 2,200 people.

Mr. PASSMAN. Is there any way to find out the number of actual full-time IDA employees?

Mr. WIECZOROWSKI. No, sir; because people work for both organizations.

Mr. PASSMAN. That causes some pretty complicated bookkeeping, does it not, as to what profit you are paying what out of?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. You have how many?

Mr. WIECZOROWSKI. The method for handling that is that IDA has to pay a management fee to the Bank.

Mr. PASSMAN. You have some full time employees, do you not, of IDA?

Mr. WIECZOROWSKI. No, sir; I do not believe any are identified that way.

LOANS TO EMPLOYEES

Mr. PASSMAN. Is it the policy of the World Bank and IDA to make loans to their personnel?

Mr. WIECZOROWSKI. To their personnel?

Mr. PASSMAN. Make loans to the staff members and to the officers?

Mr. WIECZOROWSKI. There is provision in the Administrative Manual for loans to personnel.

Mr. PASSMAN. Do you have any idea of the aggregate amount of loans outstanding at this time?

Mr. WIECZOROWSKI. I think the total would be something less than a half million.

Mr. PASSMAN. I am a poor boy myself, but you people recruit expert personnel, do you not? Don't you get them out of the banking industry and skilled people who are not looking for jobs?

Mr. WIECZOROWSKI. Yes, sir; we recruit abroad, too.

Mr. PASSSMAN. I want to be fair about this. You are not looking necessarily for men who are looking for jobs. You hire men who already have jobs.

Is that necessary to get competent personnel?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. How successful are those people if they have to start borrowing money before they board the plane to take this job? What kind of bankers are they if they have to borrow funds for an airplane ticket to get the job? I do not mean to be derogatory but it takes me by surprise that you have to recruit bankers and other competent personnel that don't need a job and yet they have to borrow money to buy an airplane ticket.

You do not get too many bankers like that.

Mr. WIECZOROWSKI. No, not all the personnel by a long measure are bankers. Many are from other disciplines. Many are also from other countries. The problems they have is that they cannot always bring capital out with them when they come to this country.

Mr. PASSMAN. You mean a country like India, that put in $40 million and received loans totaling $1,092,000,000, wouldn't let their representative, that is going to work for the Bank, take rupees out of the country? I think you can straighten that out if you take the time. Off the record.

(Discussion off the record.)

LOANS TO INDIA AND PAKISTAN

Mr. PASSMAN. I notice in the justification that Indian and Pakistan greatly exceed the other countries in the amount of extended credit, dollarwise certainly, but also percentagewise as of December 1969. Repeating for the record: India received $1,092,000,000 and Pakistan $379,200,000, is that right?

Mr. WIECZOROWSKI. Sir, may I ask a question?

Mr. PASSMAN. Yes.

Mr. WIECZOROWSKI. It seems to me your last question was an important one and if it would be helpful I could add some additional information.

Mr. PASSMAN. Not necessarily. If we should ask for a list of those employees who have borrowed money from IDA, the amount, and rate of interest, it would be available to the committee, would it not?

Mr. WIECZOROWSKI. We can provide that kind of information, sir.

Mr. PASSMAN. There is no regulation to prevent it, that you know of? I do not say that we will, but you just said you could. We will decide later whether we want it.

Mr. WIECZOROWSKI. What I thought might be helpful to point out to you——

Mr. PASSMAN. You did answer that in the affirmative earlier, that you could provide it if we request it?

Mr. WIECZOROWSKI. I can provide a summary. I think it would be improper——

Mr. PASSMAN. Never mind how improper it may be, but if this subcommittee or the full committee in its wisdom should decide that it wants a list of employees of IDA who had borrowed money, the amount and rate of interest—we could obtain it?

Mr. WIECZOROWSKI. I am not sure but that would be privileged information.

Mr. PASSMAN. Do you know positively or are you just guessing?

Mr. WIECZOROWSKI. I can tell you that for the record no one with an annual income——

Mr. PASSMAN. You are getting completely away from the question. There has been some indication earlier that this committee was not entitled to pertinent information and that is a sure way not to get any money.

Mr. WIECZOROWSKI. No, sir.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Are you willing to rest on the first answer you gave me, that is in the record?

Mr. WIECZOROWSKI. Yes, sir.

(Discussion off the record.)

CONTRIBUTION BY PAKISTAN

Mr. PASSMAN. How much has Pakistan paid into this organization?

Mr. WIECZOROWSKI. $10,090,000.

Mr. PASSMAN. Then I believe that Pakistan has gotten out about 37 times as much as they put in.

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. Is that correct, according to your own figures?

Mr. WIECZOROWSKI. Yes, sir. That is by intent, sir.

Mr. PASSMAN. I know it is by intention.

Mr. WIECZOROWSKI. I might say, sir, there are a lot of very hungry individuals in countries that are in this outfit.

Mr. PASSMAN. Did you say hungry?

Mr. WIECZOROWSKI. Yes, sir. The amount of money Pakistan has received was less than $4 per capita.

Mr. PASSMAN. That does not mean a thing in the world unless you associate per capita income with something. Let us make the case.

Here is a shirt that cost me $15.95. It moves into our economy at the retail cost of $15.95, and gets into the gross national product at that figure.

Mr. WIECZOROWSKI. Yes.

Mr. PASSMAN. If I go to some country with a different standard and I can buy the same shirt for $4.25, it moves into that country's GNP at $4.25, doesn't it?

Mr. WIECZOROWSKI. Yes.

Mr. PASSMAN. So GNP doesn't mean a thing in the world unless you relate it to something, isn't that right?

(No response.)

Mr. PASSMAN. Putting it another way, I have been in Congress 24 years. I came in January 1947. The U.S. dollar will buy only 44 percent today of what it would buy when I came here 24 years ago. If we use 1940 as a base, the dollar has lost 61 percent of its purchasing power. There is no professor of economics or anything else that can disprove the accuracy of those figures. When we talk about our $900 billion GNP, if you could take the same units we produce today and apply 1940 price tags, it would be only about 391 billion. Do you get the point?

Mr. WIECZOROWSKI. Yes.

Mr. PASSMAN. That is inflation. I have eaten some pretty good meals in my life for a dime. A big bowl of red beans and rice, bread and butter, and a free glass of iced tea. So it depends on what you can buy when you get into this per capita income and GNP statistics.

TOTAL CONTRIBUTION OF ALL MEMBERS

What has been the total amount paid in by all nations to IDA. I am speaking of all 104 members. What has been paid in?

We established it in the record earlier, but let us put it in the record at this point.

Mr. WIECZOROWSKI. Would you repeat the question?

Mr. PASSMAN. The total cash paid into IDA since its inception.

Mr. PETTY. Total IDA resources, $3.177 billion.

Mr. PASSMAN. That much has been actually paid in cash into IDA by the 104 nations?

Mr. WIECZOROWSKI. He is asking for a different figure.

The figure would be $1.7 billion.

Mr. PASSMAN. It is $1,700 million.

Mr. PETTY. That is December 31, 1969.

Mr. PASSMAN. What is the figure again, $1,700 million?

Mr. PETTY. Let us say $1,700 million.

LOANS TO INDIA AND PAKISTAN

Mr. PASSMAN. Let us add up the amount that India and Pakistan have received.

Mr. WIECZOROWSKI. Sir, we are comparing paid in on one hand with commitment on the other.

Mr. PASSMAN. Let us go to page 2 of your own justification and see if we cannot make a little better record.

Mr. PETTY. The net amount of credit extended through December 31, 1969, is $2,292 million as filed in our justification.

Mr. PASSMAN. Pakistan and India represent $1,471 million of that total, I believe.

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. So of the 86 underdeveloped nations, two nations are getting 64 percent of it; are they not?

Mr. PETTY. Certainly a preponderant share goes to those two countries.

Mr. PASSMAN. We are going to get a little closer to what the facts are. We want the record to be accurate and that is what you want.

The amount that we have given on a bilateral basis to India and Pakistan has been in the neighborhood of some $11 billion through 1968; has it not?

If we want to be completely accurate as to what the United States has given India and Pakistan, then we would have to take 40 percent of IDA and add it to that; would we not?

Mr. WIECZOROWSKI. I am sorry, sir.

Mr. PASSMAN. We are trying to establish how these two countries are getting into us. We have provided to India and Pakistan $11,400 million of U.S. aid. If we want to get the grand total that United States has given to India and Pakistan then we would have to go to IDA and pick up our contribution and add that to it; is that right, sir?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. You are just as fair as you can be. Remember that the $11,400,000,000 is only through 1968. We have to put a billion on top of that since then. This staggers the imagination.

Mr. PETTY. It shows a substantial need, sir.

Mr. PASSMAN. That is a new concept in foreign policy. Giving our wealth to our friends is about 24 years old. Isn't that a matter of fact that giving our wealth to secure friends is a new concept of foreign policy? It started with the Marshall plan.

Mr. PETTY. Giving away wealth to help friends achieve their development is important.

(Discussion off the record.)

DIVERSIFICATION OF LOANS TO AREAS OF THE WORLD

Mr. PASSMAN. I believe we were told last year that IDA would try to reduce the concentration of the greatest sums going to a few nations.

Mr. WIECZOROWSKI. Yes, sir.

Mr. PASSMAN. What progress have you made in that direction?

Mr. WIECZOROWSKI. I think there has been good progress, sir. For the fiscal year 1970, through the 31st of January, the amount of IDA commitments to India were $55 million, which brings it down to approximately 36.6 percent of the total.

That represents a substantial decline from what it has been in the past.

(Discussion off the record.)

Mr. PASSMAN. Mr. Shriver?

EFFECT ON BALANCE OF PAYMENTS

Mr. SHRIVER. Thank you, Mr. Chairman.

The justifications state that there will be no adverse effect on our balance of payments from this contribution even after the end of the 1971 fiscal year as long as IDA has available to it funds from other sources to meet its disbursements. Exactly what is the situation with regard to the availability of other funds?

Mr. WIECZOROWSKI. The other countries have come forward as provided by the balance-of-payments arrangement and the result has been that draws against the U.S. budget have gone down substantially. The figure for 1969 was $36 million. It is anticipated the figure for this year will be approximately $36.9 million.

I think that is the effect.

Mr. SHRIVER. Where is it coming from?

Mr. WIECZOROWSKI. Excuse me, sir. I gave you an incorrect figure that I would like to correct.

The figure for this year, the estimated figure is not 36.9. That is the figure that is coming from our first contribution or the first replenishment, which is still being dawn against. The total figure would be approximately $89.8 million.

Mr. PETTY. Mr. Shriver, the other Part-one donor countries agreed to permit the United States to stand aside in drawings against our contributions under the second replenishment and let us be sort of last in, so to speak, except in cases where the drawings against our letters of credit were used to pay for U.S. exports. This had the effect of delaying the budgetary impact on the U.S. contribution and neutralizing any balance-of-payments effect from our contributions.

Mr. SHRIVER. Is it having that effect?

Mr. PETTY. Yes, sir. The figures that Mr. Wieczorowski just indicated showed that the budgetary flow dropped from around $130 million in 1968 to $90 million for the current year. A cut of 30 percent, roughly.

U.S. SHARE OF TOTAL CONTRIBUTION

Mr. SHRIVER. With this appropriation the United States will have contributed $1,112,290,000 to IDA. What percentage is this of the total contribution? You may have given this information earlier.

Mr. WIECZOROWSKI. I am not sure it is in the record but I did indicate that the total resources that have been made available to IDA would be $3,130 million. This would be roughly 35 percent of that figure.

U.S. PROCUREMENT

Mr. SHRIVER. Would you tell us what percentage of the total procurement of materials and services financed by IDA loans have been purchased in the United States?

Mr. WIECZOROWSKI. The total procurement in the United States is $264 million.

Mr. SHRIVER. What percentage would that be of the total loans approved? Will you put that figure in the record?

(The information follows:)

IDA procurement in the United States ($264 million) was 19.1 percent of total identified external procurement under IDA credits and 15.9 percent of total IDA credit disbursements as of December 31, 1969.

Mr. SHRIVER. Do you have the figure on that, or are you going to put that in the record? I am speaking of the percentage.

Mr. WIECZOROWSKI. 19 percent overall.

Mr. SHRIVER. Would you give the procurement figures for the other donor countries? Do you have that?

Mr. WIECZOROWSKI. I will supply that for the record.

Mr. PETTY. I found the figure you wanted before. The procurement comes primarily from the other donor industrial countries, and a smaller amount from the lesser developed countries.

In 1968 on a percentage basis, the United States in fiscal 1969 was 13.6 percent, Great Britain, 20.8 percent, reflecting the purchasing habits of India and Pakistan with the UK. The next largest is Germany at 15.6 percent, Japan at 6.7, and France, 5.9 percent, Italy, 4.9 percent, Canada, 4.6 percent, Sweden, 3.2 percent, Switzerland, 2.1.

Mr. SHRIVER. Very well.

Will you show that in the nature of a table in the record?

Mr. PETTY. I would be happy to.

Mr. SHRIVER. Together with a percentage of their contributions.

(The information follows:)

INTERNATIONAL DEVELOPMENT ASSOCIATION—SOURCE OF SUPPLY

Key: Percentage of total through Jan. 31, 1970: (1) Paid-in usable funds provided by members and Switzerland; (2) procurement from all sources; (3) procurement from identifiable pt. I countries and Switzerland]

Pt. I countries	(1) Funds provided [1]	(2) Total procurement	(3) Identified external procurement
Australia	2.4	1.2	1.4
Austria	.7	.5	.7
Belgium	1.3	2.2	2.6
Canada	5.5	3.0	3.7
Denmark	1.3	.2	.3
Finland	.4	.2	.2
France	7.6	3.8	4.6
Germany	8.6	12.6	15.3
Italy	2.0	3.4	4.1
Japan	5.1	9.0	10.9
Kuwait	.4		
Luxembourg	(2)		
Netherlands	2.7	1.0	1.1
Norway	.9	.1	.2
South Africa	.7	.2	.2
Sweden	3.6	2.1	2.5
Switzerland	.3	1.5	1.9
United Kingdom	14.1	19.2	23.2
United States	40.5	15.9	19.1
Total	98.1	76.1	92
Part II countries	1.9		
Local procurement		13.2	
All other countries [3]		6.6	8.0
Unidentified external sources		4.1	
Total	100.0	100.0	100.0

[1] Feb. 28, 1970.
[2] Less than 0.05.
[3] Pt. II members of IDA and other World Bank members.

LOANS TO LATIN AMERICA

Mr. SHRIVER. Last year I was told that you would expect that more IDA money would go to Latin America than in recent years. Does the record of this past year support that statement?

Mr. WIECZOROWSKI. $135 million cumulative to date.

Mr. SHRIVER. Is that more?

Mr. WIECZOROWSKI. I believe the figure is 5.8 percent.

Mr. SHRIVER. How does it compare with the prior year?

Mr. PETTY. I wonder if we could submit that for the record, Mr. Shriver?

Mr. SHRIVER. Yes.

(The information follows:)

In the first 7 months of fiscal 1970 IDA credits to Latin America amounted to $2.9 million (1.9 percent of total IDA credits during that period). In fiscal 1968 IDA credits to Latin America amounted to $14.6 million (3.8 percent of total IDA credits for the year).

Mr. PETTY. This is an issue we discussed with the management of the World Bank and of IDA, of the necessity in our judgment of having increased emphasis upon development assistance in Latin America.

They are conscious of this. They are conscious of the recent decision in the conference at Caracas to further this and we have conveyed this to them.

UNCOMMITTED FUNDS

Mr. SHRIVER. The justifications show $876.2 million in uncommitted funds in IDA as of December 31, 1969.

On page 428 of last year's hearings I was told that the uncommitted funds level as of March 31, 1969, was $101 million. Would you explain the large difference in these figures and estimate the total uncommitted at this time.

Mr. WIECZOROWSKI. The total uncommitted at this time would be $849 million, That is a month later figure than the $876 million figure. The increase would be due to the fact that the second replenishment came effective after March 31. This was one of the reasons for the need for the second replenishment. This now reflects that money.

EFFECT OF INFLATION ON REPAYMENTS

Mr. SHRIVER. You show approximately $100,000 in repayments as of December 31, 1969. Since the world economy has been in a period of growing inflation similar to that faced here in this country, could you estimate the amount of actual purchasing power which has been lost to IDA on this $100,000 over the past 10 years?

Mr. WIECZOROWSKI. There was an IDA repayment of two small engineering studies that were done, I believe. Pakistan was the country. I am not sure I understand the other part of your question.

Mr. COHELAN. If the gentleman would yield, what he is trying to find out is the inflationary gap and what our losses are as the result of the world inflation. How has it affected the Bank's funding?

Mr. PETTY. Could we make an estimate and submit that for the record? I think we can estimate the rate of inflation over the period

you identified and depreciate the dollar investment accordingly. It would be more difficult to make allowances for the benefits that we received from the impact of these loans in the lesser developed countries.

I will be glad to do that and submit that.

(The information follows:)

The great bulk of IDA funds are used to finance purchase of export goods from the industrialized countries. During the 10-year period 1960 to the end of 1969 the index of prices for these goods (1963=100) rose from 99 to 107—an increase of 7.5 percent. Thus, on the average the purchasing power of $100,000 of IDA funds over this period declined by $7,500.

Mr. COHELAN. If the gentleman will yield, I am just interested as a kind of statistical footnote while you are doing that if you could perhaps expand on that and respond in another way to the chairman's earlier question, which intrigues me, about real terms. When you are making qualitative comparisons in GNP figures, for example, how do you account for constant dollars?

Mr. PETTY. We would be glad to provide that.

(The information follows:)

At present estimates of per capita dollar income in other countries are derived from national currency estimates essentially on the basis of existing exchange rates. While comparisons between different countries made on this basis are subject to a number of qualifications, they are useful and important tools of analysis. They do not serve as exclusive criteria of IDA lending decisions, but are useful when used together with other relevant information.

The major statistical limitation of existing internation comparisons of GNP arises from the divergent price and product structures of different countries. Exchange rates tend to equate directly only the prices of internationally traded goods and services. Continued work is being done to improve measurement techniques.

Mr. COHELAN. It seems to me very important for all of us, no matter how we can read the statistical data to understand the qualitative analysis as well as the figures. There is an assumption by some of our colleagues that sometimes we are playing a kind of shell game with figures. I do not think it is true at all. I think we have to spell out what the real term comparisons are. Thank you, Mr. Shriver.

LENDING STANDARDS

Mr. SHRIVER. That is what I was getting at, too. I think you explained it very well. We need to be realistic. Here is something I am wondering about. In your justifications discussing the IDA operations you say that it follows the same strict lending standard as the World Bank. What do you mean by that?

Mr. WIECZOROWSKI. It means in the analysis of a project, the determination of the rate of return that the project should provide, the techniques and in fact the personnel are the same, and the loan document that ultimately is presented is in the same form, and the follow-up to the discussion of the loan, the whole technique is the same.

Mr. SHRIVER. And the expectations of repayment are the same?

Mr. WIECZOROWSKI. Yes, sir. The terms are different, but the expectations of repayment are the same. In fact, the payment is provided for in convertible currency.

Mr. PETTY. May I illustrate that by saying that the economic test most frequently used is the discounted cash flow method of calculating an economic rate of return. The rate of return is the interest rate which when used for discounting the streams of identifiable costs and benefits that can be attributed to a project over its useful life equates the present values of the respective streams. The rate of interest is usually referred to as internal rate of return on the project. Whether it is higher or lower than the prevailing return on capital in alternative investments in the country is an important criterion for judging the economic merits of the project. Only very exceptionally is the rate of interest lower than 8 percent.

The economic rate of return employed is favored by the World Bank analysts, although occasionally the cost/benefit ratio is used.

This gets really back to the question, Mr. Cohelan, that you raised earlier.

USE OF GNP PER CAPITA

Mr. COHELAN. If the gentleman would yield, at this point could you tell us how you arrived at the GNP per capita figure as a measure of whether or not a country was eligible for an IDA loan or not?

Mr. PETTY. May I turn to Mr. Hirschtritt for some history on that?

Mr. COHELAN. Yes. What is the figure?

Mr. PETTY. $300.

Mr. HIRSCHTRITT. First it was $250 per capita as determined by the World Bank analysis of what they consider to be the per capita GNP. The reason for striking a figure was the availability of resources. They just could not make resources available to all or most part II members because the resources available for lending were extremely limited compared to the need. It was felt the resources should go to the poorest of the part II developing countries. In the wisdom of the Board of Directors and the management they struck that figure. Most recently in connection with the last replenishment the per capita figure was increased to $300.

(Discussion off the record.)

Mr. PASSMAN. By that new standard, how many countries did it bring in?

Mr. HIRSCHTRITT. About half a dozen, I think. That is a guess. About four Latin American countries.

Mr. PASSMAN. How many countries were eligible under the old standard?

Mr. HIRSCHTRITT. I would say 47.

Mr. PASSMAN. So at $300 you come to 44 countries.

Mr. HIRSCHTRITT. I would have to check that.

Mr. PASSMAN. Will you put that in the record?

(The information follows:)

Under the $250 per capita income standard approximately 55 part II members were eligible to receive IDA credits. When the standard was raised to $300 an additional four countries became eligible. To date a total of 51 countries have actually received IDA credits.

PERCENT OF LOANS TO INDIA

Mr. SHRIVER. Mr. Petty, you said last year that IDA very definitely "intends to reduce the share of IDA funding going to India and Pakistan." Has this been done this year?

Mr. PETTY. Yes, sir.

Mr. SHRIVER. To what extent?

Mr. PETTY. I believe the target was to move down.

Mr. WIECZOROWSKI. The target is to move down to approximately 40 percent share for India and a 12½ percent share for Pakistan.

Mr. PETTY. The figure I am trying to recall was to move from 44 to 40 percent during calendar 1970 or fiscal 1970.

Mr. WIECZOROWSKI. That will be met this year.

Mr. SHRIVER. That has been done?

Mr. WIECZOROWSKI. Yes, sir.

Mr. PETTY. It comes down from a high of 70 in the early 60's.

Mr. SHRIVER. How much has IDA loaned to India and Pakistan during the last 3 years?

Mr. WIECZOROWSKI. For India there was zero in 1968, $152.5 in 1969, and $55 million in 1970.

For Pakistan, it was $10 million 1968, $48 million, 1969 and $0.8 million in 1970.

DEFENSE BUDGETS OF INDIA AND PAKISTAN

Mr. SHRIVER. Do you have any idea how much these two countries have spent over the same period of time for military weapons from Russia, Red China, and Europe?

Would you put that in the record?

Mr. PETTY. There is no question that their military preparedness is an important part of their budget, Mr. Shriver.

(The information follows:)

India's total defense budget in 1968, 1969, and 1970 is running around $1.5 billion per year or about 3.5 percent of GNP. We do not have very accurate information on the foreign exchange component but one estimate is $240 million or 16 percent of the defense budget. India purchases foreign military equipment largely from the U.S.S.R. and Europe but we do not have a breakdown of payments. India does not purchase military equipment from Communist China.

Pakistan's defense budgets for fiscal year 1968 and fiscal year 1969 were $485 million and $533 million, respectively. $565 million has been budgeted for fiscal year 1970. This has been holding about 3.5 percent of GNP. It is estimated that approximately $80–$90 million a year in foreign exchange is used for defense purposes. This includes all foreign military procurement such as motor transport, communications equipment and spare parts, as well as weapons. Pakistan purchases chiefly from Europe, the U.S.S.R. and Communist China. We do not have a breakdown of foreign exchange payments between weapons and other defense expenditures or between the various sources of supply.

Mr. COHELAN. Their total defense budget is a known figure. Is it $1,300 million or $1,600 million? Does anybody know?

Mr. PETTY. I think it is a little larger.

Mr. COHELAN. I am talking about India.

Mr. SHRIVER. For defense.

Mr. COHELAN. Yes, sir; I think that is correct.

In any event, supply it for the record.

LOANS FOR AGRICULTURAL AND OTHER PURPOSES

Mr. SHRIVER. In fiscal 1968, 26 percent of IDA's funds were used for agricultural purposes. What was the percentage for fiscal 1969?

Put that in the record together with a table that will show percentages for other categories for fiscal 1969.

Mr. PETTY. I have a cumulative figure but not for 1969.

Mr. SHRIVER. Supply that for the record.

(The information follows:)

In fiscal 1969, about 23 percent of IDA's funds went for agricultural purposes. The total disbursements on a percentage basis, by sectors, were as follwos:

	Percent
Agriculture	23
Education	6
Telecommunications	12
Transportation	22.3
Electric power	2
Technical assistance and project preparation	2.2
Industry	32.5
Total	100.0

USE OF IDA FUNDS FOR FERTILIZER IN INDIA

Mr. SHRIVER. How much money in IDA funds has gone to India for the purpose of fertilizer?

Mr. WIECZOROWSKI. We can supply that.

(The information follows:)

A total of $72.7 million of IDA funds has gone to India for fertilizer and pesticide materials.

Mr. SHRIVER. There is a lot we have given in grant aid, too, for the same thing.

Mr. WIECZOROWSKI. The IDA figure for India would be only for fertilizer production.

Mr. SHRIVER. Do they still put an excise tax on fertilizer in India?

Mr. PETTY. They have this program to partly finance under AID programs to develop a local fertilizer industry. In our report on the Indian budget, I would like to comment specifically whether there is an import duty on fertilizer. I would imagine it would be introduced after they have local sources of supply more abundant.

Mr. COHELAN. If the gentleman would yield, isn't it true that they put on an internal tax on fertilizer?

Mr. PETTY. I do not know that offhand, sir.

Mr. COHELAN. Incidentally, I discussed this with some of the Indian finance ministers. While I realize their objective is to try to skim off some of the income in agriculture, I am not sure that is the way it should be done. I am a little nervous about that approach on fertilizer which is needed in the system. I have one other question that grows out of Mr. Shriver's interrogation. I would like to know how we separate out IDA activity in India as opposed to the rupee account. The excess currency.

Mr. PETTY. The U.S.-owned excess currency?

SEPARATION OF SOURCES OF FUNDS

Mr. COHELAN. That is right.

Mr. PETTY. They are completely separate. The local currency that is paid in as counterpart to IDA funds is available to the Indian Government or particular entities pending their dollar payment obligation.

The management of those resources is in the hands of the Ministry of Finance and the development entity of India, but it is not part of the resources under the U.S. counterpart fund for U.S. use.

Mr. COHELAN. As you testified earlier, Mr. Director, the Bank uses the standard technique. So I take it you take into account all sources of lending and availability for Indian development. AID, for example, and IDA. That was my question. How do you get down to the margin of IDA?

Mr. PETTY. It is part of the assessment of the overall development program of the borrowing country. In IDA financing it is not just a case of the irrigation project or the hydroelectric plant you may be financing, but it is also an analysis of the long-term development program. There are clear forecasts of what the local currency repayments will be during this period, which is a local currency repayment schedule different from the dollar repayment schedule we have been referring to in our testimony this afternoon. The use and the plans that the Government has in the secondary lending operations are very difficult to plan 20 years in advance, but there is a determination certainly on the part of the Bank's management of India's on-going development program and appraisal of their capacity to use these funds on a secondary basis effectively.

Mr. HIRSCHTRITT. Mr. Chairman, you are familiar from your experience and other hearings with the fact that in India the World Bank has a consortium exercise. It is a case where the Bank/IDA is most familiar with all of the inputs and outputs—the Indian development program and progress, what countries pledge and the different patterns—so they have a coordinated approach to the problem. It may not always work out that fine but the approach is coordinated.

Mr. COHELAN. I remember last year when I was in India the mission director was terribly anxious about the IDA component. Mr. Shriver has generated the curiosity in my own mind how we got to the point where we differentiate between other forms of aid and IDA, but I think I understand.

Mr. HIRSCHTRITT. It was in this consortium exercise.

SALE OF WORLD BANK BONDS

Mr. SHRIVER. I remember last August it was reported that the World Bank's bonds had been placed for sale and they were only able at that time to dispose of about half of the issue. Have they had any difficulty in the sale of their bonds?

Mr. PETTY. I believe the public bond borrowings——

Mr. SHRIVER. The Washington Post of August 13, 1969, reported that the Swiss bankers through whom bank bonds had been placed had been able to sell only about half of that issue.

Mr. PETTY. The dollar issues and the D-mark issues which the World Bank has floated and the public bond issues have been heavily oversubscribed.

Mr. SHRIVER. That is an inaccurate account?

Mr. PETTY. There was a problem on a particular issue in Switzerland.

Mr. SHRIVER. $18.4 million.

Mr. PETTY. Yes, sir, which did not move as well as all other issues have traditionally moved.

Mr. SHRIVER. This is the only such instance?

Mr. PETTY. Yes. It has since picked up and I do not happen to know where it is quoted right now. But it has moved out of syndicate into the hands of the permanent holders.

ALLOCATION OF ADMINISTRATIVE EXPENSES

Mr. SHRIVER. Do you fellows work for both the World Bank and IDA?

Mr. WIECZOROWSKI. Yes, sir.

Mr. SHRIVER. I do not know how you separate the budgets as far as allocating the expenses and the necessary bookkeeping.

Mr. WIECZOROWSKI. The total budget of the two organizations is $62 million. There is a management fee which is paid by IDA to the World Bank, which is $15.8 million of the $62 million. That fee is established on a judgment as to the proportion of the overhead that is generated by IDA and the attempt is to have IDA pay for those services, which it draws as a beneficiary of the whole staff.

Mr. SHRIVER. Who determines that?

Mr. WIECZOROWSKI. That is determined by recommendation of the staff of the two organizations, and approval, I believe, by the Directors.

Mr. PETTY. Executive directors.

Mr. SHRIVER. Who are they?

WORLD BANK DIRECTORS

Mr. WIECZOROWSKI. This is the on-going policy Board of the two organizations, I being the American Director. There are 20 Directors, and they are in session all the time. The other 19 represent the other constituent countries.

Mr. SHRIVER. I am just wondering what review by any governmental body or bodies there is of these determinations and the spending—not the lending—the spending for administration. What review is there by any governmental body such as the Congress?

REVIEW OF WORLD BANK AND IDA OPERATIONS

Mr. WIECZOROWSKI. There is an annual report to the Board of Governors, which is presented yearly.

Mr. COHELAN. That is of the World Bank?

Mr. WIECZOROSKI. And IDA, too.

Mr. SHRIVER. You mentioned your annual report.

Mr. WIECZOROWSKI. There is an annual report to the Governor which attempts to document the expenditures of the year. Am I missing the question?

Mr. SHRIVER. Is there any other governmental body that is looking at these administrative expenditures? Is this the committee that is responsible for that?

Mr. HIRSCHTRITT. Mr. Chairman, if I may add a point, the World Bank administrative expenses and costs are met from World Bank earnings.

Mr. SHRIVER. I understand that. But a lot of money, according to the budget, $5.7 billion, was put up by the United States when the World Bank was started. So it has a governmental relationship. We are responsible to the people that furnished the money. I am asking you who reviews this from the standpoint of government.

Mr. PETTY. Perhaps I can answer that, sir.

There are two or three types of reviews. There is first a straight fiscal audit which is done by an accounting firm, which is one aspect of good financial procedure. Second, there is a professional management itself in the World Bank composed of international civil servants who manage the organization, and thereby obtain the benefits of a professional management staff and not the same relations you have in a bilateral program. Third, there is a report of the management to the Board of Directors and to the Board of Governors on the financial position of the Bank and it is approved specifically at the annual meeting. To go beyond that, in the Treasury, in the Office of the Assistant Secretary for International Affairs, my responsibility, we provide staff support to Mr. Wieczorowski, and coordinate or support the U.S. Governor's position at the Bank.

At the time these proposals come forth for management fees on the budget for each year, on salary increases, general pay scales, and on the policy issues of management that are referred to the Board of Executive Directors, we consult and confer with the Executive Directors, frequently getting advice from our own budget officials in the Treasury and sometimes in the Bureau of the Budget, keeping an eye out as to what is an appropriate relationship between estimated cost, operating cost, and management policies and supporting our Executive Director in his votes at the meetings when the issues come up for vote.

Mr. BETTS. It might be well to mention that the U.S. Governor is the Secretary of the Treasury.

Mr. SHRIVER. I understand that. But there is no congressional review.

Mr. PETTY. There is no congressional review, Mr. Shriver. I suppose one review that the United States has is the fact that the World Bank has borrowed such a substantial amount of money from the private market, and indirectly you get the review of the private bond market as to whether or not they like the operations of the World Bank.

Mr. SHRIVER. That would not necessarily reflect a judgment on expenditures.

Mr. PETTY. Not a judgment on an individual expenditure. In addition you have the rather difficult problem of a multilateral cooperation of 110 countries, 18 donor countries, and many legislatures are involved and many taxpayers are involved.

Mr. SHRIVER. We have a substantial interest in that as well as in IDA.

Mr. PETTY. We do, indeed.

Mr. SHRIVER. I suppose this committee is the only one that has any review over IDA, and we are doing that today. As to the World Bank, there is not any governmental review by the Congress or the legislatures of the various nations involved.

Mr. COHELAN. That would be true of the Foreign Affairs Committee, too, would it not?

Mr. PETTY. Yes. And the House Banking and Currency Committee.

Mr. COHELAN. Yes.

Mr. SHRIVER. From the standpoint of the money involved it is this committee.

Mr. COHELAN. Don't they send up a report on their activities?

Mr. PETTY. The Secretary as the Chairman of the National Advisory Council submits an annual report to the President and Congress.

Mr. SHRIVER. On page 33 of IDA's 1969 Annual Report it is noted that between 1961 and 1968 the annual total net resource flows, public and private, from the developed to the developing countries increased from $9.3 billion to $12.8 billion.

ACCOMPLISHMENTS IN DEVELOPING COUNTRIES

That is a substantial sum of money in that period of time going into the developing countries' economies every year from outside sources. Could you describe for us some of the concrete improvements which have been accomplished for the individual citizens in those developing countries as a result of these large expenditures in these developing countries?

That is a rather large undertaking, so if you will put that information in the record I will conclude my questions.

(The information follows:)

Between 1950 and 1967, the less developed countries as a group increased their total production of goods and services by an annual average rate of 4.8 percent. This is considerably faster than the growth rates estimated for the presently developed countries in the early stages of their development: 2 percent in the United Kingdom between 1790 and 1820; 2.7 percent in Germany between 1850 and 1880; about 4 percent in the United States between 1820 and 1850; and some 4 percent in Japan between 1876 and 1900. It is true the accelerating rate of population growth held down the rate of growth of incomes per head to an average of 2 to 2.5 percent a year. But even this per capita income growth compares favorably with the early experience of the industrialized countries, which did not have to contend with a population explosion.

The World Bank group's contribution to this achievement has been significant and varied. Between July 1, 1964, and June 30, 1969, the Bank and IDA, for example, made commitments totaling $6.4 billion for 357 projects in 84 countries. Altogether, this provided finance for:

Creation or rehabilitation of irrigation and drainage systems for more than 29 million acres of land;

The construction or improvement of schools involving more than 635,000 school places;

The installation of more than 12,000 megawatts of new electricity generating capacity;

The installation of nearly 1.4 million subscribed telephone lines;

The construction or improvement of nearly 12,000 miles of roads;

The provision by Bank-assisted development finance companies of assistance totaling nearly $1.7 billion (1964–68) for more than 11,000 projects.

Despite a common impression that the poor countries save little themselves, they have in fact mobilized the bulk of their investment capital. Domestic savings actually financed 85 percent of total investment in the 1960's. This is a dramatic

achievement, since a high savings rate accomplished at low levels of income means a heavy sacrifice. For an individual, it may mean putting aside income which could otherwise be spent on food or shelter. For governments, it means foregoing expenditures for welfare and other pressing current needs. The average savings and investment rates in low income countries during the 1960's compared favorably with the historical investment rates of about 10 percent in Europe and the United States in the last century.

So the determination is there. And the effort. And the sacrifice. And when fueled by financial assistance from the developed nations, through the World Bank, IDA and other international agencies, as well as through their national programs, the results can be most impressive.

The task is by its nature a long term one. Problems of overpopulation still cloud the picture, although more and more countries are adopting family planning and population control policies. Unemployment is a major problem and is likely to get worse as more people flock to urban centers. Lack of adequate educational opportunities, maldistribution of income, and inadequate systems of taxation remain formidable obstacles in many areas.

Still success is possible and is being achieved. Carefully formulated development strategies can, and do, work.

Mr. COHELAN. I will note that last year the same question was asked, and I share Mr. Shriver's interest and concern in that.

If your could develop it as you did last year, I would appreciate it. I would like to hear some broad response to the question. Just off hand can you tell us something that would really give us some encouragement?

Mr. WIECZOROWSKI. We can give you a figure that something like over 10,000 miles of roads have been financed which might be a useful figure.

Mr. COHELAN. That is one measure.

Where?

Mr. WIECZOROWSKI. This would go throughout the borrowing countries.

Mr. COHELAN. Is there any dramtic development in any specific country which can be directly related to IDA and our work in this hearing?

Mr. WIECZOROWSKI. IDA's loans are all specific loans.

Mr. COHELAN. Your first paragraph in response to this direct question last year was that as of December 31, 1968, IDA had approved 139 development credits totaling $1.8 billion to 43 countries. You said 10,000 miles of roads, 23 countries, Asia, Africa, and so on. On any kind of bilateral basis I was wondering if you had any successes that were outstanding.

Mr. PETTY. Let me begin with an impression and I think you can elaborate on it.

I have been in this area of responsibility working with these banks and in development assistance now for upwards of 4 years and my associates have had much more experience than I have had. The clearest impression I have is the increased dedication and the ability we find in the finance ministries and development industries of the less-developed countries.

Each year we see them show an added level of sophistication, an added ability to manage their own resources. In the case of Colombia right now, a year and a half ago the local government was not active in local and private enterprise. Today they have a program whereby the Government is using its counterpart funds to match through the commercial banks in Colombia to make small loans to local private

enterprise in Colombia, building up a middle class, if you will, a capacity to provide that kind of capital which is most hard to finance in developing countries.

You would not have seen this 3 years ago. Today it is bubbling over with success.

Mr. SHRIVER. You mean at the level where we really want to have the success and not at the top?

Mr. PETTY. Exactly. I think you would really be proud of this and pleased that our money is being used so well for the objectives that help the people and increase the productive capacity of the country.

IDA LOANS TO COLOMBIA

Mr. SHRIVER. How much has IDA loaned to Colombia?

Mr. PETTY. I am not sure that IDA has loaned to Colombia. This was from money appropriated for the Fund for Special Operations of the Inter-American Development Bank and the World Bank.

Mr. SHRIVER. But that is another organization.

Mr. WIECZOROWSKI. For the record, Colombia has a project which was a road project. It was IDA credit No. 5, a $19 million credit, that is now a completed road.

Mr. SHRIVER. When was that done?

Mr. PETTY. The loan was made in 1961.

Mr. WIECZOROWSKI. I would be happy to add one or two specifics if they would be useful at this point.

I picked out short examples so it won't take lengthy reading. I picked out one for India on telecommunications which represents IDA credits, 28 and 58.

(Discussion off the record.)

EXPANSION OF INDIAN TELECOMMUNICATIONS

Mr. WIECZOROWSKI. Two credits totaling $75 million were made to India to finance the foreign currency costs of telecommunication expansion program in her third 5-year plan, 1961–66.

The number of telephone subscribers almost doubled from 500,000 to 970,000, and the circuit kilometers of long distance circuits almost tripled from 0.58 million to 1.6 million kilometers. Tying these countries together is important. High quality communication arteries using modern coaxial systems were providing interconnections with many principal cities in the country including Calcutta, New Delhi, Bombay. Fully automatic handling of long distance calls was established between some of these cities.

In addition, about 1,600 miles of long distance cable routes were commissioned to modernize and improve railway telecommunications as part of the electrification program. This in turn helps to increase the capacities of railways to handle the movement of grain, materials and industrial goods.

IDA LOAN FOR ROADS IN KENYA

I could read you another one on Kenya, which is just a $3 million loan, a very small loan relatively, but it built 900 miles of roads up into the estates and these roads cost less than $5,000 a mile to put

through which is pretty cheap for roadbuilding. The point is you open up the area. These people were able to sell tea for the first time for cash and actually constituted a cash income that they could turn over. You can go from the big items to the small items. It depends on what you consider dramatic.

Mr. COHELAN. Where do the roads go?

Mr. WIECZOROWSKI. This project was IDA–77. They were access roads on the slopes of Mount Kenya.

(Discussion off the record.)

Mr. WIECZOROWSKI. These are just small access roads, simple for the most part unpaved and costing less than $5,000 a mile.

Mr. COHELAN. The real job is to get it to the tea factory.

Mr. WIECZOROWSKI. Yes, this tied in to the earlier credit for the building of tea estates.

Mr. SHRIVER. You were talking about telecommunications in India.

Mr. WIECZOROWSKI. Yes, sir.

Mr. SHRIVER. When was that done?

Mr. WIECZOROWSKI. Those two credits were September 14, 1962, and July 6, 1964.

Mr. SHRIVER. Quite a long time ago. They have been having trouble in some of those towns you mentioned that had this great improvement in telephones, Calcutta, for example. What I am worried about is, are your funds getting down to help the people at the grass roots or are they just helping those at the top?

Mr. WIECZOROWSKI. The second of these was specifically that. The first in terms of subscribers I would say, yes, in that case.

Mr. PETTY. Much of the IDA lending is concentrated upon the infrastructure that a community needs. It is hard to say that a road——

Mr. SHRIVER. Of course, they need food in Calcutta and jobs.

Mr. PETTY. They need food and the IDA money is focused on the development of irrigation projects, access roads, and upon power.

Other resources are available. Our own Public Law 480 program has been actively used for food in Calcutta.

(Discussion off the record.)

Mr. COHELAN. Calcutta is a "surrendered" city.

Mr. PETTY. There is no question about it.

Mr. COHELAN. What Mr. Shriver is pointing up in specific places like that some of this is like spitting in the wind. It is very discouraging for all of us who want to see good development.

LOAN FOR WATER SUPPLY IN TAIPEI

Mr. PETTY. Let me mention one last one, Mr. Chairman. While I think it is an early credit of IDA's, it is significant because it demonstrates one of our success stories in economic assistance. The Republic of China, on the municipal water supply, in 1961, a credit of $4,400,000. It was completed in 1964 at less than estimated cost. The project more than doubled water production from 500 to 110 million gallons per day, then it strengthened the distribution within Taipei and extended the system to suburban communities. Water has been met as population increased from 1.1 to 1.7 million and tourism has developed as an industry. In addition the country has benefited indirectly. The

Taipei approach has been applied to other communities in Taiwan, and this has resulted in investment cost savings in other water projects exceeding $5 million. This is a multiple of our own IDA investment and a model for other communities in Taiwan.

AFRICAN DEVELOPMENT BANK

Mr. COHELAN. I shall be very brief, gentlemen. I would like to know what is happening to the African Development Bank. Are they making any loans in the soft loan department?

Mr. PETTY. They do not yet have any soft loan funds, sir. It is our report that the President of the Bank has resigned. You may be familiar with the history of his tenure. This is a question of a bank, an African Bank, owned by Africans, designed to make loans in Africa, most of the countries of which are contenders really for concessionary lending. The capital that is available to the Bank of upwards of $100 million paid in convertible currencies is really available for hard lending.

Mr. COHELAN. Is the request still outstanding for the $150 million for a soft loan window for the African Bank?

Mr. PETTY. The African Development Bank is still seeking concessionary funds. About 2 or 3 years ago, President Johnson offered, should other donors be in a position to contribute, to contribute towards a special fund. That offer was not taken up by the others and has since lapsed. The other donor countries have not been optimistic in their prospects of providing additional funds for the African Development Bank. It seems appropriate in our judgment that an initiative for building up the special fund would most likely come from Europe in view of their traditional ties with Africa. We will be pleased to work with other donor countries and discuss the problems of the African Development Bank and see what is the best way to proceed.

Mr. COHELAN. Mr. Secretary, I do not want to keep all of us here.

Mr. WIECZOROWSKI. May I make a quick observation? The World Bank group, including IDA, does work with these other organizations, and more specifically as of June 30, 1970, announced a joint loan to Malawi where the soft part of the loan was made by IDA in the amount of $5.25 million, and since, as Secretary Petty says, there was no ability to lend on soft terms from the African Bank, the African Bank did loan $3 million on its best terms, which were 20 years at a 7 percent rate of interest. So in this case the two combined to study the loan and provide the funds for it. This was for an electric power development.

Mr. COHELAN. I take it in the sub-Sahara Desert in the absence of a soft loan window of the African Development Bank that we will continue to be active in this area.

Mr. PETTY. IDA will, yes.

Mr. COHELAN. In the sub-Sahara?

Mr. WIECZOROWSKI. Yes, sir. The number of credits to Africa now exceeds $450 million.

LOAN FROM SWITZERLAND TO IDA

Mr. COHELAN. What is this item in here on the Swiss loan to us? A loan from the Swiss Confederation of $12.1 million. IDA finances as of December 31 item.

Mr. WIECZOROWSKI. Switzerland is not a member of IDA but did provide funds through this loan which is a no-interest loan for 50 years.

Mr. COHELAN. So they were very generous in lending IDA some money.

Mr. WIECZOROWSKI. This was the Swiss way of participating.

Mr. SHRIVER. Is there some law to prevent Switzerland from participating in IDA?

Mr. RICE. They have a law which prevents them making a grant.

Mr. PETTY. Switzerland is not a member of the World Bank and is not eligible for membership of IDA, although it is a subject of increasing interest to Switzerland, whether it is appropriate for Switzerland to reconsider its traditional posture and take a direct membership in an international organization. Interestingly enough it has decided to join the Asian Development Bank as a non-regional donor country. I think it is a significant and heartening departure from their past attitude.

IDA PLANS FOR EAST PAKISTAN

Mr. COHELAN. My last question has to do with East Pakistan. What are we doing there and do we have any plans for IDA loans in the future?

Mr. WIERZOROWSKI. There is a special project for East Pakistan which is one of the larger activities, which presently is operating under the special projects division of the Bank.

Mr. COHELAN. Is it an irrigation project?

Mr. WIECZOROWSKI. It is a broad scale. A man by the name of Mr. Iverson, an American from out West.

Mr. COHELAN. How much money?

Mr. WIECZOROWSKI. It is a very massive project but I do not think it has developed to the point where there is a total fund projection.

Mr. COHELAN. It is in the feasibility stage?

Mr. WIECZOROWSKI. Yes, sir. They are in what may be as much as a 2-year study for the development of that project.

PAKISTAN RELATIONSHIP WITH CREDITOR COUNTRIES

Mr. COHELAN. Has there been any thing worth noting in relationship to our IDA loans to Pakistan since the revolution, or since the overthrow of Ayub?

Mr. WIECZOROWSKI. I am not aware of any significant thing.

Mr. PETTY. The whole development problem in Pakistan has become more difficult with the change in the Government and a very substantial debt burden that exists. As a matter of fact, this weekend in Paris I believe there is a World Bank sponsored group that is consulting on the debt servicing capacity of Pakistan to the creditor countries and the consortium of the donor countries are working to consider if

a different regime of the foreign debt might stimulate their development program.

Mr. COHELAN. Mr. Seretary, it has been called to my attention your request of February 11 where the International Development Association has approved a credit equivalent to $20 million to help finance the foreign exchange requirements in the Industrial Development Bank of Pakistan for its own private industrial enterprise. Can you tell us something about that? Can you expand on that?

Mr. WIECZOROWSKI. That is a loan which will be directed to agricultural projects. Excuse me, let me correct myself. I am getting my loans mixed up.

Mr. COHELAN. Isn't Mr. Durani the head of that corporation or has he been ousted?

Mr. WIECZOROWSKI. I am not familiar with that.

I was starting to give you information on a different loan. I better submit that for the record.

Mr. COHELAN. Very well.

(The information follows:)

The International Development Association (IDA) has approved a credit equivalent to $20 million to help finance the foreign exchange requirements of the Industrial Development Bank of Pakistan (IDBP) for its loans to private industrial enterprises in Pakistan.

The Pakistan Government established IDBP in 1961 primarily to finance medium- and small-scale firms in East and West Pakistan. The majority of its shares are held by the Government; its other shareholders include the West Pakistan Government, foreign investors, and 220 private Pakistani investors; the latter hold 34 percent of the shares.

IDBP's activities complement those of the Pakistan Industrial Credit and Investment Corporation Ltd. which finances the larger enterprises and to watch the World Bank has lent about $183 million. The two institutions are the most important financial intermediaries for private industrial development in Pakistan.

Since its establishment IDBP has approved over 3,700 loans, totaling the equivalent of some $450 million, for a wide range of industries, particularly the export-oriented textile and jute industries. About 80 percent of its lending has been in foreign exchange.

In the future, IDBP should play an increasingly important role in Pakistan's industrial growth. IDBP plans to increase its lending for the next 5 years by about 60 percent over the previous 5-year period. The IDA credit will finance about one-third of its foreign exchange requirements in the next 2 years. Industrial development has progressed more slowly in East Pakistan than in West Pakistan. IDBP has directed 40 percent of its lending to East Pakistan and intends to increase its operations there in the future.

The credit will be extended to the Islamic Republic of Pakistan for a term of 50 years, including 10 years of grace. It will be interest-free but a service charge of ¾ of 1 percent will be made to cover IDA's administrative costs. The Government will relend the proceeds to the Industrial Development Bank of Pakistan. Repayment of the loan by IDBP to the Government will conform approximately to repayments received by IDBP on its subloans.

Mr. COHELAN. Do you have any questions, Mrs. Reid?

OTHER SOURCES OF FUNDS AVAILABLE TO IDA LOAN RECIPIENTS

Mrs. REID. To what extent do the recipients of IDA loans benefit from other types of foreign aid grants and development credits?

Mr. WIECZOROWSKI. Most recipients of IDA credits receive development assistance in much larger amounts from other sources. For example, during the period 1965–67 recipients of IDA credits in the aggre-

gate received over nine times as much official assistance from other sources, primarily bilateral programs, as they did from IDA. In fiscal 1969 eight of the larger recipients of IDA credits (India, Pakistan, Indonesia, Korea, Turkey, Tunisia, Bolivia, Senegal) received total new commitments of $302 million from IDA, $512 million from other multilateral institutions (including $366 million from the World Bank) and approximately $2,100 million from bilateral programs (including $1,186 million from the United States).

Mrs. REID. Will any of the IDA loans ever be repaid to the United States—or do the payments go back into the account of IDA?

Mr. WIECZOROWSKI. Repayments on IDA credits go to IDA and are used by it to finance new lending operations. The U.S. contributions to IDA are made on an investment basis. They will not be repaid to the United States except upon liquidation of the institution or U.S. withdrawal from it.

LOANS TO INDIA AND PAKISTAN

Mrs. REID. Does the major portion of authorized development credits still go to India and Pakistan?

Mr. WIECZOROWSKI. The major portion of IDA development credits still goes to India and Pakistan. However, the percentage of the total is gradually declining.

	Amount (in millions)	Percent of total
India:		
Cumulative share of credits to June 30, 1968	$887.4	49.6
Cumulative to June 30, 1969	1,038.0	47.8
Cumulative to Jan. 31, 1970	1,093.0	47.1
Pakistan:		
Cumulative share of credits to June 30, 1968	331.1	18.5
Cumulative to June 30, 1969	378.4	17.4
Cumulative to Jan. 31, 1970	379.0	16.3

Between July 1, 1967 and December 31, 1969 the share of new IDA credits going to these two countries combined was approximately 42 percent.

Mrs. REID. Are there any current restrictions which could be put on development loans to prevent recipients from diverting large amounts of their own money from peaceful development to the purchase of weapons?

Mr. WIECZOROWSKI. The World Bank and IDA use their influence with borrowing governments to achieve the most effective use of both domestic and external resources in line with economic priorities. The consortia and consultative groups on aid to individual countries, most of which have been organized and are led by the Bank, also serve as forums in which resource allocations are discussed with recipients by other governments and international institutions.

The World Bank and IDA have consistently used their influence to increase the proportion of national funds allocated to development. The Bank's procedures assure that both Bank and IDA funds are used only for the purposes specified in loan and credit agreements. The Bank, however, cannot determine the national defense policy of its members. Each country must and will be the final judge of its own defense requirements.

VOTING POWER OF U.S. DIRECTOR

Mrs. REID. How much voting power does the U.S. Executive Director in the IDA have in view of the U.S. contribution of 40 percent of IDA's usable funds?

Mr. PETTY. Each member of IDA receives 500 votes plus one additional vote for each $5,000 of its initial subscription. The U.S. provided 31.59 percent of total initial subscriptions (from both Part I and Part II members) and has 25.34 percent of total votes. The Part I members did not receive additional votes for their supplementary contributions under the first and second replenishments.

Mrs. REID. Could any of the money contributed as part of the U.S. commitment be used as a soft loan to Communist nations?

Mr. PETTY. IDA credits are extended only to member countries. The only Communist nation in IDA is Yugoslavia and it does not qualify because its per capita income ($530 a year) exceeds the operating ceiling of $300 a year on which IDA credits under this replenishment are based.

EFFECT OF DENIAL OF APPROPRIATION REQUEST

Mrs. REID. What would happen if we did not vote the additional funds for IDA at this time?

Mr. PETTY. The United States would be forced to default on its commitment to the other 18 nations contributing to the second replenishment. As authorized by legislation passed by the Cogress last year, the U.S. Governor committed the United States to contribute $480 million over 3 years as our share of a total replenishment of $1.2 billion. This appropriation is needed to pay the third and final installment of the U.S. contribution.

Mr. COHELAN. I want to thank you gentlemen. If there are no further questions, I think we can adjourn until Monday at 10 o'clock.

TUESDAY, MARCH 3, 1970.

RYUKYU ISLANDS, ARMY, ADMINISTRATION

WITNESSES

HON. DAVID H. WARD, DEPUTY UNDER SECRETARY OF THE ARMY (INTERNATIONAL AFFAIRS)

LT. GEN. JAMES B. LAMPERT, HIGH COMMISSIONER OF THE RYUKYU ISLANDS

HOWARD M. McELROY, COUNTRY OFFICER FOR JAPAN, DEPARTMENT OF STATE

EDWARD W. O'FLAHERTY, INTERNATIONAL AND CIVIL AFFAIRS DIRECTORATE, OFFICE, DEPUTY CHIEF OF STAFF FOR OPERATIONS

EDWARD FREIMUTH, OFFICE OF DEPUTY UNDER SECRETARY OF THE ARMY (INTERNATIONAL AFFAIRS)

COL. BRUCE T. FALLS, SPECIAL ASSISTANT TO HIGH COMMISSIONER OF THE RYUKYU ISLANDS

JOSHUA KRAMER, COMPTROLLER, U.S. CIVIL ADMINISTRATION OF THE RYUKYU ISLANDS

WILLIAM J. SEEFELDT, JR., INTERNATIONAL AND CIVIL AFFAIRS DIRECTORATE, OFFICE, DEPUTY CHIEF OF STAFF FOR OPERATIONS
J. C. PAMPLIN, SPECIAL FUNDS OFFICE, OFFICE, COMPTROLLER OF THE ARMY

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Program by activities:			
1. Administration	3,270	3,360	3,107
2. Aid to the Ryukyuan economy	15,641	17,500	3,845
Total obligations	18,911	20,860	6,952
Financing: Unobligated balance lapsing	1,861		
Budget authority	20,772	20,860	6,952
Budget authority:			
Appropriation	20,772	18,790	6,952
Proposed supplemental for wage-board increases		128	
Proposed supplemental for civilian pay act increases		81	
Reappropriation		1,861	
Relation of obligations to outlays:			
Obligations incurred, net	18,911	20,860	6,952
Obligated balance, start of year	6,910	7,692	8,162
Obligated balance, end of year	−7,692	−8,162	−3,154
Adjustments in expired accounts	124		
Outlays, excluding civilian pay increase supplemental	18,253	20,201	11,940
Outlays from wage-board increases		117	11
Outlays from civilian pay act supplemental		72	9

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
RYUKYU ISLANDS			
Personnel compensation:			
Permanent positions	1,903	1,961	1,830
Positions other than permanent	39	22	24
Other personnel compensation	83	89	87
Special personal service payments	595	631	593
Total personnel compensation	2,621	2,704	2,534
Personnel benefits: Civilian employees	224	233	234
Travel and transportation of persons	320	366	210
Transportation of things	67	95	83
Rent, communications, and utilities	46	47	48
Printing and reproduction	21	12	3
Other services	1,817	1,976	786
Supplies and materials	151	144	143
Equipment	80	37	35
Grants, subsidies, and contributions	13,542	15,220	2,850
Total obligations, administration, Ryukyu Islands, Army	18,890	20,834	6,926
ALLOCATION TO U.S. INFORMATION AGENCY			
Other services	9	9	9
Supplies and materials	12	17	17
Total obligations, U.S. Information Agency	21	26	26
Total obligations	18,911	20,860	6,952

PERSONNEL SUMMARY

Total number of permanent positions	372	340	313
Full-time equivalent of other positions	9	6	5
Average number of all employees	347	319	300
Average GS grade	9.6	9.7	9.7
Average GS salary	$12,240	$13,500	$13,164
Average salary of ungraded positions	$2,431	$2,990	$3,045

Mr. PASSMAN. The committee will come to order.

We shall consider this afternoon the budget request for the Ryukyu Islands. We have as witnesses Lt. Gen. James B. Lampert, High Commissioner of the Ryukyu Islands, Department of the Army. Also the Honorable David H. Ward, Deputy Under Secretary of the Army for International Affairs, and many fine supporting witnesses whose names will be spread upon the record.

I would assume, Mr. Secretary, and General Lampert, that you both have statements you would like to make to the committee.

Mr. WARD. Yes; we do.

General LAMPERT. Yes; we do.

Mr. PASSMAN. Fine. You may proceed in your own way.

GENERAL STATEMENT OF DEPUTY UNDER SECRETARY OF THE ARMY FOR INTERNATIONAL AFFAIRS

Mr. WARD. Mr. Chairman and members of the committee, it is a privilege to appear before this committee in support of the budget request for the administration of the Ryukyu Islands by the Department of the Army. I am particularly pleased to have with me today Lt. Gen. James B. Lampert, High Commissioner of the Ryukyu Islands, who appeared before this committee last year and who will be able to provide the necessary details in support of this request. Mr. McElroy, from the Department of State, is also with us and is available to address questions concerning Okinawa in the context of U.S./Japan relations.

Since the last request for appropriations for the Ryukyu Islands was supported before this committee, there has been a fundamental change in the future of the U.S. role as administrator of the Islands. Consequently, there has been a significant revision in the composition and the level of our budget request.

From November 19 through 21, 1969, the President and Japan's Prime Minister met in Washington to exchange views on the international situation and on matters of mutual interest to both countries. As an outgrowth of these meetings, an agreement, expressed in a joint communique, was reached whereby the two governments would enter into consultation for accomplishing the early reversion of the Ryukyu Islands to Japan without detriment to the security of the Far East. The effort will be to accomplish the return in 1972, subject to the completion of the reversion arrangements and to necessary legislative support.

Further, at the November meeting it was agreed that there would be established a Preparatory Commission on Okinawa to work out necessary measures for the transfer of the administrative rights over the islands to Japan and related questions. The Commission will consist of the High Commissioner and a representative of the Japanese Government with ambassadorial rank. The chief executive of the government of the Ryukyu Islands will act as an adviser to the Commission. The present tripartite Advisory Committee to the High Commissioner will be abolished with the advent of the Preparatory Commission.

The step toward achieving reversion in 1972, can open the door to even greater cooperation between our two countries. The return of the Ryukyu Islands to Japanese administration will remove the potential sources of dispute stemming from our administration of a territory, the reversionary rights to which are recognized to be in Japan.

Now that a conditional agreement for achieving reversion of the Ryukyu Islands in 1972 has been reached, it should be noted that a number of factors remain unchanged. First, the United States continues to be responsible under the provisions of article 3 of the Treaty of Peace with Japan for the exercise of administrative authority in the Ryukyus until the day of reversion. And under the terms of Public Law 86–629, the civil administration is still charged with seeing that

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

Second, Okinawa continues to need outside economic support. In this next fiscal year the Japanese Government will provide $72.3 million of direct economic assistance and another $19.4 million in loan funds. In addition to the $3,107,000 for administration, the President's fiscal year 1971 budget allocates $3,845,000 for the U.S. contribution to the economy, down from the $17.5 million appropriated in fiscal year 1970. But, as in past years, the overall contribution to the Ryukyuan economy by virtue of the presence of the U.S. forces in the islands—estimated at $288 million for fiscal year 1970—is still the dominant factor in the economic life of the area.

Those programs which the U.S. Government has determined to be of continuing importance for support from appropriated funds for fiscal year 1971 are in three major areas—reimbursement to the local government for the higher costs incurred in both public safety and public health activities because of the presence of U.S. forces on Okinawa; purchase of medical supplies to help reduce the spread of certain diseases, to some extent considered endemic to the area; providing improvement to the two leprosaria for which there is only limited support available from the local government; and finally providing some support for the education and training of Ryukyuans. The program which is being requested, while relatively small when compared with what has been provided in past years, is still important. It will provide one of the means for moving these specific programs, the levels of public health, education and welfare services, toward levels obtaining in comparable areas of Japan, a goal enunciated by the President in 1962.

I am pleased, at this time, to introduce General Lampert who will be able to discuss these programs in greater detail.

Mr. PASSMAN. Since this is the first appearance of the Deputy Under Secretary, Mr. Ward, we will insert in the record his biographical sketch.

(The biography follows:)

BIOGRAPHICAL SKETCH OF DEPUTY UNDER SECRETARY OF THE ARMY (INTERNATIONAL AFFAIRS)

David H. Ward was appointed Deputy Under Secretary of the Army for International Affairs effective February 2, 1970.

Mr. Ward had previously been engaged in the practice of law with the Chicago firm of Sidley & Austin since 1961. Prior to joining the firm he served as law clerk for Justice Walter V. Schaefer of the Illinois Supreme Court.

Mr. Ward is responsible for advising and assisting the Secretary and Under Secretary of the Army on international and security matters and foreign relations affecting the mission of the U.S. Army. Included in his areas of concern are the U.S. administration of the Ryukyu Islands, the Canal Zone Government and Panama Canal Company, treaty matters concerning the Panama Canal, Army intelligence, certain security and foreign liaison matters, military support of civil defense, military history, and various special projects. Mr. Ward was born in Kansas City, Mo., on May 13, 1933. He received a B.A. from Harvard College in 1955 and an LL.B. from Harvard Law School in 1960. From 1955 to 1957 he served in the Navy, leaving active duty as a leutenant (jg).

Mr. PASSMAN. Next we will hear from the distinguished High Commissioner, General Lampert.

GENERAL STATEMENT OF THE HIGH COMMISSIONER OF THE RYUKYU ISLANDS

General LAMPERT. Mr. Chairman and members of the committee, I am pleased to have this opportunity to testify in support of the fiscal year 1971 budget request for the "Administration Ryukyu Islands, Army (ARIA)" appropriation.

As the committee knows from its experience with our administration in the Ryukyus, the recent agreement between the President and the Prime Minister of Japan significantly changes our task in these islands. From now until the actual reversion date we will be working to try to insure the smooth operation of our Okinawa bases in the future; and to insure that the transfer of civil authority to Japan is handled effectively and with minimum dislocation and disruption of the well-being and daily lives of the Ryukyuan people.

I had been at my post as High Commissioner only a short time when I appeared before this committee last spring in connection with the fiscal year 1970 budget. The observations which I made to the committee at that time appear, on reflection, generally accurate today. In the past year I have traveled widely throughout Okinawa and have visited most of the approximately 40 inhabited islands in the Ryukyus. I have made a special effort to have personal contact with as many Ruykyuans as possible, in all walks of life. In the Ryukyus there is a reasonable display of good will toward the United States and appreciation for what the United States has done since World War II to promote the welfare of the Ryukyuan people. In the day-to-day administration of the Ryukyus, we continue to have a good relationship with the local government of the Ryukyu Islands headed by Mr. Chobyo Yara. You will recall that Mr. Yara, the first popularly elected chief executive, was elected in November 1968 on a platform of "immediate, unconditional, and complete" reversion. In office Mr. Yara has worked hard to conduct an effective government. He has been quite successful in this, and he continues to enjoy wide popularity among Ryukyuans.

In the past year we have had a number of political and economic problems which have produced some public demonstrations and some

strikes. Some of these arise from local issues, but others appear to be related to larger political questions attracting public attention in Japan. However, our military bases have at all times been able to carry out their assigned missions and the U.S. authorities have been able effectively to discharge U.S. responsibilities for the administration of the Ryukyus. I want also to emphasize that there is very little anti-American feeling in the Ryukyus.

As you know, the agreement between the President and Mr. Sato said we will work toward the administrative reversion of Okinawa in 1972. They further agreed that, following the return of the administrative rights to Japan, the United States would continue to maintain military bases on Okinawa under our existing Treaty of Mutual Cooperation and Security with Japan. In the joint communique, the Prime Minister agreed that the return of administrative rights over Okinawa should not hinder the effective discharge of the international obligations assumed by the United States for the defense of countries in the Far East including Japan.

The U.S. complex of military bases on Okinawa is extremely valuable to us. The Kadena Airbase, with its 12,000-foot runways can accommodate any type of aircraft now in operation and will be able to handle the new C–5A. Okinawa is again the home of the 3d Marine Division, which recently returned from Vietnam. The U.S. Army operates a large, modern, and comprehensive logistical base which services all areas in the Western Pacific. Many communications facilities on Okinawa provide vital support for U.S. military operations in the Western Pacific. These and our other bases on Okinawa will, I believe, continue to play a key role in the U.S. defense posture in the Pacific for some years to come.

It therefore seems obvious that we need to retain the acceptance of our military presence and cooperation and good will on the part of the Okinawan people. Our economic aid program has made a major contribution in all of this. The majority of Okinawans and people elsewhere in the Ryukyus appear to accept that our military bases on Okinawa will remain for a number of years to come. As has been true in the past, they have mixed attitudes toward our bases. Irritations and anxieties continue to arise from incidents involving Ryukyuan and United States personnel, jet aircraft noise, our extensive use of Okinawa land, and other base-related activities. A vocal and militant minority of anti-United States elements makes every effort to exploit these issues.

The responsibilities of the United States for the administration of the Ryukyus and for the welfare of the Ryukyuan people will continue until reversion actually takes place. Many difficulties lie ahead as we work with the Government of Japan to develop arrangements for the smooth and orderly transfer of administrative rights to Japan. We can expect continuing and increasing efforts by opposition groups, in conjunction with similar efforts in Japan proper, to interfere with the operation of U.S. military bases and to oppose the continued operation of our Mutual Security Treaty with Japan. We are seeing efforts to exploit the anxieties of the Ryukyuan people who recognize the dependence of their economy and their standard of living on our military bases and other outside support.

Labor relations with our local base employees require a great deal of our attention, especially at present. Currently we are dealing with

a strong reaction by our Ryukyuan workers to personnel reductions which all of the military services are making as our share of the similar reductions in the United States and elsewhere in the world. So far as I can tell, there has not been a similar reduction in Okinawa before this one, and we have had great difficulty in trying to explain its inevitability to our Ryukyuan work force. A majority of the Ryukyuans employed by the American military services on our bases are members of one large union, Zengunro. This union is the largest member of the principal labor federation in the Ryukyu Islands. It maintains contact with organized labor in Japan, although there is no official relationship. The Zengunro union is strongly contesting the current reduction in our Ryukyuan work force, despite our explanations that similar reductions are underway elsewhere. We have had two work stoppages so far in 1970. Such disputes may continue to occur. They, of course, cause us local difficulties, but we will be able to maintain effective base operations at all times.

In dealing with our base labor problem, as well as other issues, the Japanese Government has been quite helpful. We will be continuing our contacts with that Government, through our Embassy in Tokyo, as we seek workable solutions to problems such as those I have been discussing.

The Government of Japan has also been quite generous in the matter of aid to the Ryukyus. Japan's aid for the coming year is projected at $91.7 million compared with $63.2 million in the current year. Undoubtedly, this substantial increase in Japanese aid is directly related to the reversion agreement.

We have endeavored to develop our fiscal year 1971 budget request in consideration of the reversion agreement, of funds available from the USCAR general fund, and of the projected Japanese assistance program.

We have submitted an ARIA budget request for fiscal year 1971 totaling $6,952,000. This represents a $13,908,000 reduction from the $20,860,000 required for fiscal year 1970. The requested $6,952,000 includes $3,107,000 for administrative activities and $3,845,000 for economic aid. Tables I and II, appended to this statement, give the specific projects and amounts requested.

The $3,107,000 being requested for administrative activities in fiscal year 1971 is $253,000 less than the estimated requirement of $3,360,000 for fiscal year 1970. The reduction will be made possible by a 10-percent cut in personnel strength, a decrease of $169,000; a 50-percent cut in public affairs programs, amounting to $62,000; and reductions in travel and operating expenses of $22,000.

Reduction in ARIA economic aid funds in fiscal year 1971 will permit us to make certain reductions in personnel. Remaining employees will be fully occupied in dealing with the many new requirements for planning and carrying out phase-down and reversion activities. In this connection, the Advisory Committee to the High Commissioner will be replaced shortly by the Preparatory Commission, which was provided for in the Nixon-Sato joint communique. The Preparatory Commission will be charged with the task of "consulting and coordination locally on measures relating to preparation for the transfer of administrative rights, including necessary assistance to the govern-

ment of the Ryukyu Islands." This Commission will report to the Governments of the United States and Japan through the United States-Japan Consultative Committee in Tokyo.

In the area of ARIA economic aid funds (table II), only $3,845,000 is being requested for fiscal year 1971, compared with $17,500,000 for fiscal year 1970. This amount covers only what we consider the most urgent on-going projects which contribute significantly to our presence on Okinawa. We believe that funds for these projects are most important to U.S. continued interests in the Ryukyus after reversion. Funds are required for public safety services, which include control of civil disturbances, and which directly benefit about 30,000 Americans living off-base; public health and sanitation services, which contribute directly to safeguarding the health of our troops and depenents, both on and off base; purchase of drugs and medical supplies to combat disease; improvement of facilities at the two leprosaria; transportation of commodities; continuing support, including return transportation, of Ryukyuan students already studying in the United States; continuing support of on-the-job training of local nationals in U.S. Army facilities in the Ryukyus; and continuing support of the Ryukyuan medical training program.

To complete the picture on United States aid to the Ryukyus, it is necessary to consider the U.S. civil administration general fund program. Table III shows the projects and amounts proposed. Obligations of $17.1 million are expected for fiscal year 1970. The general fund estimated unobligated balance of $3 million at the start of fiscal year 1971 and estimated revenues of $20.7 million result in a projected availability of $23.7 million. This amount is expected to be fully obligated in fiscal year 1971.

As indicated in table III, the major emphasis of the fiscal year 1971 general fund program is in the areas of electric power, water, roads, sewer systems, and developmental loans. Continuing expansion of electric power and water facilities is necessary to keep pace with the rising demand for these utility services by industry, households, and military bases in the Ryukyus. These utility projects will be financed with $4.6 million in retained earnings of the water corporation, and $4.5 million in general fund capital contributions for water projects. The major water system project underway is the construction of the 9.75-billion-gallon Fukuji Dam and Reservoir in Northern Okinawa. To improve the transportation system, there is also a need to expand the limited road network. The general fund will continue financing the construction of a high-priority, four-lane, limited-access highway through the capital city of Naha. This highway will be a tremendous help in meeting the needs of the civilian community by by diverting traffic from Highway 1, the heavily congested main supply route and will thereby contribute greatly to the performance of the military mission. The general fund contributions for sewer systems will for all practical purposes be completed in fiscal year 1971. Less than $1 million will remain to be funded on this important project in fiscal year 1972. Developmental loans will will be provided out of retained earnings of the loan corporation.

This concludes my statement. I will be pleased to answer any questions you may have. Thank you.

(Tables referred to follow:)

TABLE I.—PROJECT 8710: ADMINISTRATIVE ACTIVITIES, ARIA, FISCAL YEARS 1969, 1970, 1971

Project	Activity	Actual fiscal year 1969	Estimate		Fiscal year 1971 over fiscal year 1970 increase (+) decrease (−)
			Fiscal year 1970	Fiscal year 1971	
	Total	$3,269,744	$3,360,000	$3,107,000	−$253,000
8711	Pay of personnel	2,844,989	2,937,000	2,768,000	−169,000
8712	Travel of civilian employees	116,196	+137,000	119,000	−18,000
8713	Information materials and services	125,848	125,000	63,000	−62,000
8714	Operating expenses	182,711	161,000	157,000	−4,000

TABLE II.—U.S. ECONOMIC AID TO THE RYUKYUS, ARIA, FISCAL YEARS 1969, 1970, 1971

Activity	Actual, fiscal year 1969	Estimate		Fiscal year 1971 over fiscal year 1970, increase (+) or decrease (−)
		Fiscal year 1970	Fiscal year 1971	
Aid to Ryukyuan economy	$15,641,100	$17,500,000	$3,845,000	−$13,655,000
Reimbursement for Government services	1,500,000	1,500,000	1,875,000	+375,000
1. Public safety services	1,000,000	1,000,000	1,250,000	+250,000
2. Public health and sanitation services	500,000	500,000	625,000	+125,000
Contribution to Government projects	12,032,119	13,650,000	790,000	−12,860,000
1. Educational programs	7,369,181	8,425,000		−8,425,000
(a) Assistance for Ryukyuan teachers' salaries payment	4,153,000	6,000,000		−6,000,000
(b) Public school construction	1,974,458	1,700,000		−1,700,000
(c) Vocational education equipment	417,779	200,000		−200,000
(d) Equipment for public schools	674,223	460,000		−460,000
(e) University of the Ryukyus	29,977			
(f) English language training	119,744	65,000		−65,000
2. Social welfare programs	1,310,000	240,000		−240,000
(a) Government retirement program	535,000			
(b) Medical insurance program	535,000			
(c) National pension program	240,000	240,000		−240,000
3. Public health and medical programs	1,043,768	1,300,000	790,000	−510,000
(a) Disease control	524,336	570,000	550,000	−20,000
(b) Hospitals	359,982	385,000		−385,000
(c) Leprosaria	124,450	215,000	240,000	+25,000
(d) Dispensaries and nurse stations		130,000		−130,000
(e) Health centers	35,000			
4. Public safety facilities	167,000	225,000		−225,000
(a) Traffic control signal lights	80,000	70,000		−70,000
(b) Police vehicles	22,000	50,000		−50,000
(c) Police patrol boat	65,000	65,000		−65,000
(d) Police communication equipment		40,000		−40,000
5. Public works and economic development	2,142,170	3,460,000		−3,460,000
(a) Roads and bridges	1,222,750	2,500,000		−2,500,000
(b) Municipal housing	319,920	400,000		400,000
(c) Ryukyu Land & Housing Corp	499,500	560,000		560,000
(d) Ryukyuan products center	100,000			
Transportation of commodities	5,000	5,000	5,000	
Technical education and training	1,112,828	1,135,000	650,000	485,000
Technical cooperation	991,153	1,210,000	525,000	685,000

TABLE III—USCAR GENERAL FUND FINANCIAL PROGRAM

[In thousand dollars]

	1969 actual	1970 estimaje	1971 estimate
Unobligated balance, start of year	$577	$290	$3,070
Receipts:			
Corporate earnings	4,752	5,737	6,969
POL earnings	11,070	13,750	13,200
Other	489	400	500
Total receipts	16,311	19,887	20,669
Total funds available	16,888	20,177	23,739
Program by activities:			
Ryukyu Development Loan Corporation	2,885	2,031	2,130
Ryukyu Electric Power Corporation	3,067	7,189	4,611
Ryukyu Electric Water Corporation	1,600	1,467	4,728
Economic Aid Program:			
Contribution to Island Sewer System	4,150	2,500	2,500
Other economic development and public works projects	4,154	3,090	9,120
Special assistance to municipalities	399	300	300
Disaster relief	149	200	200
Fixed assets: POL facilities	194	330	150
Total obligations	16,598	17,107	23,739
Unobligated balance end of year	290	3,070	0

FISCAL YEAR 1971 BUDGET REQUEST

Mr. PASSMAN. Thank you, Mr. Secretary, for a very excellent statement. Thank you, General, for your very informative statement.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. We are going to deal with the budget requests, the actual dollar requests, and I would assume we will direct our questions to General Lampert; is that correct?

General LAMPERT. I believe so, Mr. Chairman.

Mr. PASSMAN. The 1971 estimate is $6,952,000, which is a reduction of $11,838,000 below the amount appropriated for the same purpose last year; is that correct, General?

General LAMPERT. That is correct, Mr. Chairman.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. This, of course, excludes the proposed fiscal year 1970 supplemental of $209,000 for pay act increases; is that correct, General?

General LAMPERT. Yes, sir, Mr. Chairman.

REAPPROPRIATION OF FISCAL YEAR 1969 UNOBLIGATED BALANCE

Mr. PASSMAN. Of course, your regular fiscal year 1970 appropriation was $18,790,000. To that we would have to add the reappropriation of $1,861,000 in unobligated balances?

General LAMPERT. Yes, sir.

Mr. PASSMAN. That was unobligated funds at the close of fiscal year 1969; is that correct?

General LAMPERT. This amount was reappropriated when the committee acted on the 1970 bill.

Mr. PASSMAN. I understand.

General LAMPERT. Yes, sir. It is my understanding that this was money set aside in the executive branch in response to the provisions of the Revenue Expenditure Control Act of 1968. And it was unapportioned and therefore unexpended from the previous year.

Mr. PASSMAN. Ordinarily you operate on 1-year funds, do you not?

General LAMPERT. Yes, sir, Mr Chairman, that is correct.

Mr. PASSMAN. And without the language in our bill of last year reappropriating the impounded funds or unobligated funds from the fiscal year 1969 appropriation, then you would have operated—or at least you would have tried to operate—on $18,790,000, wouldn't you?

General LAMPERT. Yes, sir; we would.

Mr. PASSMAN. And it required, of course, language in our fiscal 1970 bill to make it possible for these funds to be reappropriated; is that right, sir?

General LAMPERT. I believe that is correct.

LEVEL OF FISCAL YEAR 1970 USCAR BUDGETING

Mr. PASSMAN. Of course, you are operating on the $18,790,000 appropriation for fiscal year 1970, aren't you? Or are you including the $1,861,000 in your across-the-board operating budget?

General LAMPERT. Mr. Chairman, unless it has happened in the last day or so, the apportionment within the executive branch of the amount approved for fiscal year 1970 has not yet been completed. So locally, in the Ryukyus, we are still operating under the terms of the continuing resolution passed by the Congress, which has required that we relate our obligations to the corresponding rate in the previous year.

Mr. PASSMAN. I understand. In 1970 you are spending at a rate equal to your 1969 appropriations?

General LAMPERT. Yes, sir.

Mr. PASSMAN. What was the 1969 appropriation?

General LAMPERT. $18,911,000, Mr. Chairman.

Mr. PASSMAN. And it is just coincidental that your 1970 appropriation, in round figures, without the reappropriation of unobligated balances, is $18,790,000.

General LAMPERT. Yes, sir.

Mr. PASSMAN. We are now into the ninth month of this fiscal year, and it stands to reason that you are going to have to do an awful lot of spending if you include this $1,861,000. You are allocating funds, under the continuing resolution, more or less in keeping with your 1969 appropriation, are you not? But even so, your original appropriation for fiscal year 1969 was $20,772,000, had it not been for the reduction of $1,861,000, which was imposed upon you by the Bureau of the Budget?

General LAMPERT. Yes, sir.

Mr. PASSMAN. You must have assumed that the President was playing for keeps and not kidding the American taxpayer about trying to hold down expenditures, and you were living within the reduced budget.

General LAMPERT. We were living within the amount actually apportioned to us in fiscal year 1969.

Mr. PASSMAN. That is what I said, it simply means a reduced level of operations.

General LAMPERT. Yes, sir.

Mr. PASSMAN. I want to commend you. I certainly hope that you don't have to spend any part of the $1,861,000 and, since you will soon be getting close to getting that fourth star, possibly you can even find a little bit of the $18,790,000 to add to it. We hope so anyway, because spending money is quite popular in Washington, as you have no doubt heard.

U.S. TAX BURDEN

I was reading a statement a few days ago and I am having it verified. Let me preface my remarks by saying you have to have tax money. You have to have taxes or you can't run the Government. But it is a question of excess spending that is breaking us down, creating inflation, and confiscating your savings, and your retirement annuity because when you reduce the value of the dollar, that is indirect confiscation. I understand that for every 12 months the average American works, 6 months of that labor goes for taxes, if you include the tax take at all levels, direct and indirect, and I think the Government is taking too big a bite.

DATE FOR RYUKYUAN REVERSION TO JAPAN

General, has any specific date been decided upon as to when the reversion of the Ryukyu Islands to Japan will take place in 1972?

General LAMPERT. Mr. Chairman, no specific date has yet been decided. The agreement, as I am sure the Chairman knows, provides for working toward a date in 1972. That date has not yet been determined.

Mr. PASSMAN. I assume that upon the reversion—or should I say takeover by Japan—of the Ryukyu Islands that this program, as such, will cease to exist?

General LAMPERT. To the best of my understanding, Mr. Chairman, that is correct. There would be no further basis for requesting the economic assistance appropriations.

PHASE OUT OF U.S. ECONOMIC AID PROGRAM

Mr. PASSMAN. But I would assume any unliquidated funds to the credit of specific projects yet to be completed, would be phased out in a possibly orderly manner.

General LAMPERT. I am sure that is correct, Mr. Chairman. We would continue our programs, which have been approved by the Congress, and pay the bills which we have incurred.

Mr. PASSMAN. I should think that you would have uncompleted projects such as roads, sewer systems, and so on?

General LAMPERT. Yes, sir.

Mr. PASSMAN. And you wouldn't be able to, on the very last day of the Ryukyus being under the jurisdiction of the United States, conclude every project on that day.

I wanted to make an appropriate record, so that there will be no fussing about it at some subsequent date. You will have to bring these projects to an early conclusion, however, I should think.

General LAMPERT. Yes, we certainly will.

Mr. PASSMAN. Stating it in the broadest terms, you undoubtedly would have to have an administrator in the Ryukyus to phase out this program, and you would have to have funds to do that, wouldn't you?

General LAMPERT. Mr. Chairman, I presume that is quite probable. We actually haven't progressed far enough in the negotiations, in the discussions with the Japanese Government yet, for me to be able to give you a firm answer to your question.

POSSIBLE BUDGET REQUEST FOR FISCAL YEAR 1972

Mr. PASSMAN. Of course that will be included, no doubt, in your request for 1972—if you have another one?

General LAMPERT. Yes, sir.

DISPOSITION OF GENERAL FUND

Mr. PASSMAN. The general fund—which is rather substantial in value—will it continue available to the Ryukuan Government? Or will we dissolve this fund and convert it into dollars and bring it home?

General LAMPERT. The general fund, Mr. Chairman, is in a broad sense included in the civil assets of the civil administration, and I would expect that those civil assets which will remain in the Ryukyu Islands are to be sold.

VALUE OF GENERAL FUND ASSETS

Mr. PASSMAN. What is the amount, General?

General LAMPERT. We can supply that figure, Mr. Chairman.

Mr. PASSMAN. Just an approximate figure?

General LAMPERT. It includes the corporations—the electrical corporation and all of its fixed capital assets, the water corporation and all of its fixed capital assets, the Development Loan Corporation and the Bank of the Ryukyus, and certain equities in certain buildings and capital improvements, sir.

Mr. PASSMAN. I know what it covers, but the aggregate value, do you have that?

Mr. KRAMER. The book value is $134 million.

Mr. PASSMAN. That should be a rather firm figure.

Mr. KRAMER. That is all of the corporations, yes, sir.

REPLACEMENT COST OF CIVIL FACILITIES

Mr. PASSMAN. In all probability, to accomplish or to get on the books the same assets today, it might cost you double that amount, would it not?

Mr. KRAMER. That is possible, sir.

Mr. PASSMAN. $134 million covers the cost of the sewer systems, the powerplants, the water systems, and other facilities that people need in their everyday lives.

Mr. KRAMER. Yes, sir.

Mr. PASSMAN. If we think of your powerplants, in all probability to replace them today would cost a lot more money, would it not? You have appreciation and depreciation, and in all probability appreciation is far greater than depreciation. Would you say that would be a statement of fact?

General LAMPERT. It would cost more today to replace a facility like that which was built sometime ago.

Mr. PASSMAN. There is an outside possibility—or maybe it could become a reality—that in negotiating with Japan to take over these assets that our receipts may be far greater than your book value, because your book value is less depreciation, is it not?

Mr. KRAMER. Yes, sir.

Mr. PASSMAN. If the appreciation is greater than the depreciation—and in all probability it is—conservatively we could wind up with a very handsome profit, is that correct?

General LAMPERT. I believe that is possible, yes, sir.

Mr. PASSMAN. And if you were to liquidate, certainly you are going to protect the Japanese and our country too, and try to get what these assets are actually worth.

Inasmuch as there is no firm date for turning the Islands over to Japan, I guess there would be no purpose to ask questions about 1972. We will just have to cross that bridge when we get to it.

General LAMPERT. We just don't yet known enough about that, Mr. Chairman.

EFFECTS OF STRIKES ON BASE OPERATIONS

Mr. PASSMAN. General Lampert, how did the recent strikes affect your operations?

General LAMPERT. Mr. Chairman, we have had two strikes in 1970, accompanied by some disturbances. They of course gave us problems, but we continued all our essential operations with no serious difficulties, sir.

Mr. PASSMAN. I see. So you would consider the situation under control at this time?

General LAMPERT. Yes, sir.

U.S. APPROPRIATIONS SINCE FISCAL YEAR 1947

Mr. PASSMAN. Would you place in the record, from the inception of this program in the Ryukyus through fiscal 1970, each year's appropriation, and the grand total?

General LAMPERT. Yes, sir.

(The information follows:)

U.S. Appropriations for the Ryukyu Islands[1]

GARIOA: 1947-57	$185,166,000
ARIA:	
1958	2,475,000
1959	2,860,400
1960	5,282,000
1961	6,089,000
1962	7,089,000
1963	8,954,150
1964	10,000,000
1965	14,441,000
1966	14,773,000
1967	14,948,000
1968	15,078,000
1969	20,772,000
1970	18,790,000
Subtotal ARIA	141,551,550
Total appropriations	326,717,550

[1] The first appropriation under heading "Administration, Ryukyu Islands, Army" (ARIA), was made in 1958. Prior to 1958, appropriations were made under heading "Government and Relief in Occupied Areas" (GARIOA). For the most part appropriations were commingled with funds for other areas. Amount shown is that for estimated GARIOA obligations in the Ryukyus 1947–57.

RYUKYU ISLANDS DEFENSE CONTRIBUTION

Mr. PASSMAN. I think, as we look at foreign aid—and this is foreign aid after a fashion—these bases meant a great deal to the security of the United States and to the commitments we have in that part of the world. So we couldn't really look at this as just straight out foreign air, because of other considerations, is that correct?

General LAMPERT. That is correct, sir.

Mr. PASSMAN. You agree that is a fair statement?

Mr. MCELROY. Yes, sir.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. Last year you requested $3,151,000 to administer an aid program of $17,500,000. This year you are requesting $3,107,000 to administer an aid program of only $3,845,000. Becaues of this large decrease in the amount of aid funds requested, why is there not a similar decrease, percentagewise, in funds requested for administration?

General LAMPERT. Mr. Chairman, the figure to which you refer, of course, pays for the administrative expenses in operating the civil administration. We are, in fact, making certain reductions in personnel which have resulted in a small decrease, somewhat offset by the costs of shipping people home and by pay increases.

But the basic answer to your question, sir, is that most of the activities of the civil administration for the next 2 years will be devoted to arranging for the close-out of our activities and the turnover of responsibility to Japan. And there will be really no significant decrease in the workload of the organization from now until the reversion date.

FISCAL YEAR 1970 INCREASE COSTS

Mr. PASSMAN. I believe that you are going to be able to absorb the pay act costs out of your 1970 appropriations, are you not?

General LAMPERT. With your permission, Mr. Chairman, I would like to ask Mr. Kramer, the Comptroller of the Civil Administration to comment.

Mr. KRAMER. The $209,000 supplemental request is for fiscal 1970 that we are asking for as an increase.

Mr. PASSMAN. Applicable to fiscal 1970?

Mr. KRAMER. Yes, sir. That is as a result of the increase in salary, sir.

Mr. PASSMAN. In what amount?

Mr. KRAMER. That is the $209,000 you see on page 3.

Mr. PASSMAN. And you are not absorbing it?

Mr. KRAMER. We have absorbed a portion of the total.

Mr. PASSMAN. What is the grand total?

Mr. KRAMER. We have absorbed, sir, $61,200, and we did experience $270,000 in pay increases.

Mr. PASSMAN. $270,000—so you are absorbing then a very small part of it, only $61,000.

Mr. KRAMER. Yes, sir, $61,000 in civilian pay increases.

Mr. PASSMAN. Inasmuch as we are trying to assist the President in holding down expenses, do you feel that you could possibly, under tightening up your expenditures, absorb the remainder? Or do you think it is absolutely necessary that you ask for a supplemental appropriation?

Mr. KRAMER. Mr. Chairman——

Mr. PASSMAN. You are either going to have to absorb it or your going to have to ask for a supplemental, one or the other.

Mr. KRAMER. We are asking for a supplemental because of the very lateness of the fiscal year, which means if we go into a RIF action now, these increments could not be absorbed this fiscal year.

Mr. PASSMAN. What difference does it make if it is a supplemental appropriation? You are operating on a continuing resolution anyway, which runs at just about the same level as the 1969 appropriation.

General LAMPERT. Mr. Chairman, I believe the explanation is that we have made the assumption—under the ground rules given us by the executive branch—that this request would be included in a request for a supplemental appropriation and for that reason we have kept certain people on the payroll whom we would have otherwise had to separate now in order to save this amount of money.

I believe the point that Mr. Kramer was making, sir, is that if you separate someone at this time in the fiscal year, there is little or no effective saving because of the costs of separation, which are incurred.

Mr. PASSMAN. We would like to see you absorb it if you could, but we certainly realize that this is the effect of acts of the Congress.

General LAMPERT. Mr. Chairman, we will look at that again, and we will endeavor——

Mr. PASSMAN. Off the record.

(Discussion off the record.)

INFORMATION MATERIALS AND SERVICES

Mr. PASSMAN. General Lampert, you estimate that $63,000 will be needed for "information materials and services." What does this represent?

General LAMPERT. Mr. Chairman, this pays for the programs carried by the information organization in the civil administration, which endeavors to promote public understanding of and cooperation in what we are there for. This represents a reduction of 50 percent in the amount requested for last year, and with this money it is planned to carry on with press publications, cultural center operations, use of radio and television through the Japanese language, radio and television media within the Ryukyus to try to keep the Ryukyuan public informed of our programs and the purpose of them and to try to promote a favorable impression of the United States.

Mr. PASSMAN. Did I read somewhere that it was to strengthen the U.S. image in view of the reversion in 1972?

General LAMPERT. I am not certain where this is. May I supply a statement for the record.

(The information follows:)

INFORMATION MATERIALS AND SERVICES

In 1971 it is proposed that financing of public affairs programs be reduced to one-half of the 1969 and 1970 levels. The bulk of the reduction, $46,500, is planned in the press and publications area (from $43,500 to $9,500) and cultural center operations (from $33,700 to $21,200). The amount of the budget reduction will also necessitate a $15,500 decrease in the radio-television funding (from $47,800 to $32,300). However, these fast media (radio-television) will still be utilized to the extent possible in explanation of the rapid changes expected in the pre-reversion situation.

Circumstances surrounding the USCAR information programs are expected to change materially as a result of the agreement to undertake reversion negotiations with Japan. However, there the requirement to maintain and strengthe gotiations with Japan. However, the requirement to maintain and strengthen the U.S. image in the Ryukyus continues because U.S. military bases will remain after reversion. Therefore, an aggressive information program must be conducted to ensure public acquiescence in the continuation of the bases and introduction of the United States-Japan mutual security treaty arrangements to the Ryukyus.

At the same time, public understanding and cooperation must be developed in support of numerous major and fundamental changes leading to reversion in basic administrative programs including: management of public utilities including water, power, communications, transportation, highway, and aviation; changeover from dollar to yen curency; probable further reductions in Ryukyuan employees of U.S. forces; and application of status of forces agreement to U.S. servicemen.

These issues will require changes in the U.S. public affairs program in the Ryukyus. The Ryukyuan general public must be the principal objective. However, basic goals will remain relatively unchanged. The immediate goal is to continue a reasonable acquiescence of the U.S. military presence and to create and sustain a greater understanding of the U.S. longer range objectives, which affect in varying degrees the immediate situation, to point up the mutual benefits of the United States-Japan partnership, to gain the support of the people of the Ryukyus for this relationship and to promote mutual Ryukyuan-American understanding and respect for each other's culture.

IMPROVED RYUKYUAN ECONOMIC CONDITIONS

Mr. PASSMAN. I will say one thing, that if we haven't created a favorable image in the past 23 years, constructing those typhoon-proof

buildings and apartments and replacing those little schools with wooden benches with these modern, beautiful, air-conditioned buildings, if that hasn't left a favorable image you are never going to be able to do it with $63,000 this year.

General LAMPERT. No, sir.

Mr. PASSMAN. According to what has been happening in Japan, it doesn't appear that we created a very favorable image with all the billions of dollars we dropped into their laps and fixed it to where they have one of the greatest economies possibly of any nation on the face of the earth. Japan is really waxing fat in wealth. I don't know whether they give the U.S. taxpayers credit for it, but our assistance accounts for the great advances in their economy.

I say that because I remember the planned trip of President Eisenhower to Japan. The resentment appeared to be so great that they had to cancel the trip.

(Discussion off the record.)

COMPETITION FROM JAPAN

Mr. PASSMAN. We are not even competitive in half the markets where Japan competes. We have just about priced ourselves out of the world market with our generosity, and they have been the recipients of a great amount of it—first direct, and later indirect aid.

AID TO THE RYUKYUAN ECONOMY

General, would you explain briefly the need for the request of the $3,845,000 for "Aid to the Ryukyuan economy." Off the record.

(Discussion off the record.)

General LAMPERT. Yes, sir; we will put that in the record.

(The information follows:)

AID TO THE RYUKYUAN ECONOMY

The $3,845,000 is the aid to the Ryukyuan economy authorized by section 4, Public Law 86-629, as amended. The purpose of this assistance, as stated in Public Law 86-629, is "* * * to improve the welfare and well-being of the inhabitants of the Ryukyu Islands and promote their economic and cultural advancement, during such time as the United States continues to retain authority over the Ryukyu Islands."

In recognition of the agreement between President Nixon and Prime Minister Sato to undertake negotiations for early reversion of Okinawa to Japan, a substantial reduction is planned in U.S. appropriated aid to the Ryukyus. However, the reduction is expected to be more than offset by increases in aid from the U.S. Civil Administration, Ryukyu Islands (USCAR) general fund and the Government of Japan. Consequently, U.S. appropriated aid for fiscal year 1971 is being requested only for urgent on-going programs which are considered to be of direct interest to the United States and which will still contribute to the economic and social development of the Ryukyus and be responsive to our needs and obligations at this time. Items for which the funds are requested are:

Reimbursement for Government Services—$1,875,000.—This sum is requested pursuant to section 4b, Public Law 86-629 which authorized "reimbursing the government of the Ryukyu Islands for services performed for the benefit of and by reason of the presence of the Armed Forces of the United States within the Ryukyu Islands." Funds are requested for public safety services ($1,250,000) and public health and sanitation services ($625,000).

Many of the public safety services provided by the GRI benefit the United States. Examples are crime prevention and investigations, suppression of vice, control of entry and exit, coordination of air/sea rescue operations, investigation

of traffic accidents, traffic control and enforcement, assistance in counter-intelligence activities, control of civil disturbances, and operation of penal and correctional institutions. Cost of these services to the GRI has increased from $1,764,000 in fiscal 1961 to $8,144,000 in fiscal year 1970, due in part to substantial additions to the regular police force and the police reserves, to increased overtime for control of demonstrations, and to steadily rising operating costs. U.S. assistance in fiscal year 1961 was $500,000 (or 28.3 percent) and in fiscal year 1970 is expected to be $1 million (or 12.3 percent). In order to bring U.S. support more in line with the rising costs of these services, it is requested that $1,250,000 be made available to the GRI in fiscal year 1971. This amount will represent about 13.1 percent of the total of $9,500,000 anticipated to be required for these services in fiscal year 1971.

The U.S. Civil Administration insists on the maintenance of high public health and sanitation standards by the GRI to guard against the outbreak of infectious diseases and other health hazards. This protects not only the local populace but also U.S. forces personnel since the major U.S. installations on Okinawa are located near the most populous sections of Okinawa. About 50,000 Ryukyuans are employed directly or indirectly by U.S. forces, and approximately 9,000 U.S. families reside in off-post housing located in Ryukyuan communities. Cost of this program has increased from $1,789,000 in fiscal year 1961 (when U.S. contributions amounted to $325,000 or 18 percent) to an estimated $5.5 million in fiscal year 1971. It is proposed that $625,000 (11.4 percent of total cost) be contributed out of this appropriation in fiscal year 1971 for these services. These funds will be utilized to assist in defraying personnel and administrative costs involved in carrying out public health and sanitation services.

Public Health and Medical Programs—$790,000.—This amount is requested to assist the government of the Ryukyu Islands in improving its programs of detection, prevention, and treatment of communicable diseases for the protection of the local and military communities. Disease control will require $550,000 to assist the local government in continuing its efforts in this area, to assure that proper medication is secured, and to assist in handling the program. Funds will be used for purchase of drugs, medical supplies, and minor equipment necessary to implement and conduct disease control programs. The government of the Ryukyu Islands operates two leprosaria, Airaku-en in northern Okinawa and Nansei-en on Miyako Island. As of June 1969, Airaku-en had 751 patients and Nansei-en, 247, making a total of 998. Facilities for these unfortunate patients are not wholly adequate since GRI's financing of improvements has been rather limited. $240,000 is requested for construction of septic tanks at both locations; construction of an air-conditioned recreation and rehabilitation hall at Nansei-en; installation of air-conditioning equipment for the recently built recreation and rehabilitation hall at Airaku-en; paving of an internal road net and construction of sidewalks; construction of, and equipment for, a 2,700-square-foot physical and occupational therapy facility at Airaku-en; and construction of an 1,800-square-foot patients' cooperative center at each location.

Ryukyuan Scholarship Program—$500,000.—This program, which has provided scholarship opportunities for about a thousand students since its inception in 1949, is administered for the Army in CONUS by the Institute of International Education (IIE) and in Hawaii by the University of Hawaii, in coordination with CINCUSARPAC. Ordinarily MA degree candidates are allowed up to 2 years to finish their degree requirements; Ph. D. candidates 3 years; and bachelor-degree candidates, 4 years. $500,000 is requested to support a total of 150 extension students, 105 in CONUS, and 45 in Hawaii. No funds are included for new scholarship students in fiscal year 1971.

On-the-Job Training—$150,000.—In order to provide training opportunities for young workers in the Ryukyus, on-the-job training programs are planned including: Apprentice training for 100 trainees in U.S. Army facilities; engineering training for 20 university graduates at the U.S. Army District Engineer office; a work-study program for 115 Ryukyuan university students at selected U.S. Army shops and offices and GRI medical facilities; and medical training for five veterinarians and technicians at the U.S. Army Hospital, Ryukyu Islands.

Medical Surveys and Advisory Services—$525,000.—The University of Hawaii School of Medicine initiated in April 1967 under a Department of the Army contract, a postgraduate medical education program for Ryukyuan physicians and house officers. This training is being conducted at the modern Okinawa Central Hospital which was built and equipped largely with U.S. funds. A total

of 16 have completed their internship to date and an additional 14 interns are undergoing training. Of those who have completed their internship, 13 are now in resident (specialty) training. This program is also providing for the upgrading of local government physicians who receive short-term training in certain subspecialities. The continuation of this program is essential to the improvement of the practice of medicine in the Ryukyus. It also helps alleviate the shortage of medical and paramedical personnel. $525,000 is requested for fiscal year 1971 to cover final year training and phase-out costs.

Transportation of Commodities—$5,000.—This amount is requested to provide for payment of ocean transportation charges of welfare supplies donated to the Ryukyuan people by voluntary aid organizations in the United States.

PUBLIC HEALTH AND SANITATION

Mr. PASSMAN. When the reversion is completed, in all probability we will still have military personnel and some civilian personnel stationed on the Islands. Will that necessitate an agency of the U.S. Government to maintain some satisfactory public safety and health standards?

General LAMPERT. Mr. Chairman, I presume it will not necessitate such an agency after reversion. The American military bases, we expect, will remain in Okinawa but they will be in the same situation as the American bases in Japan proper.

The governmental activities, such as public safety and public health, will then become the responsibility of the national government of Japan, working either directly or through what will then be the prefectural government in Okinawa.

Mr. PASSMAN. We do have to maintain certain standards for our own personnel.

General LAMPERT. Yes, sir.

Mr. PASSMAN. And this island is a pretty small place, when we think of numbers of acres, and in the event that we believe certain minimum standards should be maintained to protect our personnel, then that will be something that you will have to work out with the local government.

General LAMPERT. Yes, sir, it will be necessary to work it out.

PHASEOUT OF RYUKYUAN SCHOLARSHIP PROGRAM

Mr. PASSMAN. General, why is it necessary to provide $500,000 for the Ryukyuan scholarship program?

General LAMPERT. Mr. Chairman, as you know, a number of students from the Ryukyus are now in universities in the United States, both in mainland United States and in Hawaii. The $500,000 is requested to support the continuation of programs in American universities for 150 students who are presently in the United States but whose programs will continue on beyond this year, sir.

Mr. PASSMAN. You presently have an on-going program, but you are adding no additional students? Or is this estimate to phase out the program?

General LAMPERT. Mr. Chairman, this request includes no funds for the establishment of any new scholarships. However, so that I won't mislead the committee, sir, I would like to say that I have found that there are certain people in the Ryukyus—students—to whom verbal and, I think, moral commitments were made to send them to the United

States this next fiscal year. They have already begun preliminary training in English.

Mr. PASSMAN. I can understand that.

General LAMPERT. And we are examining the possibilities, sir, of financing their training next year through the general fund. But we are not requesting appropriated funds for that purpose.

Mr. PASSMAN. I could understand the reason of phasing out this program in an orderly manner. But you aren't thinking in terms of some long range plan?

General LAMPERT. No, sir.

Mr. PASSMAN. Will you continue it?

General LAMPERT. No, sir

Mr. PASSMAN. So this, along with the other activities, will be phased out?

General LAMPERT. That is correct, sir.

Mr. PASSMAN. According to present plans?

General LAMPERT. That is correct.

MEDICAL SURVEYS AND ADVISORY SERVICES

Mr. PASSMAN. I believe that you are requesting $525,000 for medical surveys and advisory services. Is that correct?

General LAMPERT. That is correct, sir. It is projected to be entirely applied to the final year of operation of the training program of the Medical School of the University of Hawaii.

LEPROSARIUM IMPROVEMENTS

Mr. PASSMAN. You have two leprosariums on the Islands?

General LAMPERT. Yes, sir.

Mr. PASSMAN. Those individuals are members of the human family just as we are. But for the grace of God, any of us could have been a victim of Hansen's disease. I know you have been very sympathetic to their problems.

General LAMPERT. Yes, sir.

Mr. PASSMAN. Are you continuing to make improvements for their comfort and to provide better facilities than they had at one time?

General LAMPERT. Yes, sir. The committee was very generous in granting our request in the fiscal 1970 appropriations and with that we are going to provide a number of new facilities and we are requesting, in the request before the committee now, an additional $240,000, which will provide certain additional, very desirable improvements at both those two leprosariums.

Mr. PASSMAN. As far as I am concerned, you are going to get my vote. Had the request been doubled, that figure would still have had my recommendation.

I want to commend you gentlemen for understanding that this is an affliction that could hit any of us, and for extending a helping hand to the victims of this dread Hansen's disease—dread to some people. I have never had any fear of it; I always figured that God would take care of me under certain circumstances and I have mingled with the victims of this disease all over the world and have had no fear of them. I don't overexpose myself, but I have never had any fear of mingling

with them. They are members of the human family under God, just as we are, and to see them, makes me appreciate that it was not my lot in life to contract Hansen's disease.

General LAMPERT. It is a very moving experience, Mr. Chairman, as you know, to visit those two facilities.

Mr. PASSMAN. I hope that I can go out to Okinawa, if at all possible this fall, to see these facilities.

General LAMPERT. I hope you will be able to come.

POWER SITUATION IN THE RYUKYU ISLANDS

Mr. PASSMAN. General, last year you stated studies were underway to determine what generating plants or other facilities would be needed to provide electric power in the future. What is the status of these studies, and if new plants are needed how do you propose to finance them?

General LAMPERT. Yes, sir; we will supply a complete statement on that problem.

(The information follows:)

STATUS OF ELECTRIC POWER STUDIES—PLANS FOR FINANCING NEW PLANTS

Studies of electric power demand and projected consumption have been completed. They indicate the requirement for additional generating capacity of 85 megawatt in each of calendar years 1973, 1975, and 1978. Because of the lead-time required for design and construction, the Ryukyu Electric Power Corp. has programed financing for the first units of 85 megawatts in FY 1970 (design and real estate costs of $1 million) and subsequent years ($13 million for construction). It is planned to fund the $1 million from the USCAR General Fund and the $13 million construction cost out of corporate earnings.

EXPENDITURE OF FUNDS IN FISCAL YEAR 1971

Mr. PASSMAN. General, of the total funds requested for fiscal 1971, how much will be spent in 1971 and how much will be carried over to future years?

General LAMPERT. Our estimate, Mr. Chairman, shows that $3,154,000 obligated but not expended.

Mr. PASSMAN. I see.

General LAMPERT. It will still be on the books.

Mr. PASSMAN. This is to meet firm obligations?

General LAMPERT. Yes, sir.

Mr. PASSMAN. Last year you had an unobligated balance of $1,861,000, which we reappropriated. Will you have an unobligated balance in fiscal 1970?

General LAMPERT. We do not anticipate that there will be any such balance, or any unobligated balance, Mr. Chairman.

Mr. PASSMAN. I want to commend you again, General, and the members of your staff for the very special consideration you have given to these two leprosariums. And, try though we may, it just seems in this area of the world that this disease is still considered a stigma by the family and even the press is reluctant to give true coverage. I understand that some members of the family still consider the victims outcasts if they contract the disease. To me that is extremely unfortunate.

General LAMPERT. The medical people, Mr. Chairman, tell me that there are some small indications of an improvement in that area.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. I think the greatest public relations in the world is to be good to sick people.

General LAMPERT. It certainly is.

Mr. PASSMAN. It pays off at all levels. Off the record.

(Discussion off the record.)

Mr. PASSMAN. I yield to Mr. Shriver.

REVERSION OF RYUKYUS TO JAPAN

Mr. SHRIVER. First, I want to congratulate you on the substantial reduction in the request for this program.

Would you briefly describe the status of the negotiations between the United States and Japan concerning detailed arrangements for reversion? What, if any, legislative action will be necessary in connection with this reversion?

General LAMPERT. Thank you for the remarks on the level of our program. As to the status of negotiations with the Japanese, we have only just made a start in this direction and we expect these negotiations to be quite lengthy. Only this morning, March 3, Tokyo time, was there an exchange of notes in Tokyo between Ambassador Meyer and the Japanese Foreign Minister agreeing to the detailed arrangements which will establish a Preparatory Commission in the Ryukyu Islands for dealing with matters associated with the return of the Ryukyu Islands to Japanese administration. As noted by the joint communique, the understanding for the return of Okinawa to Japan is subject to the conclusion of specific arrangements as well as the necessary legislative support. It is my understanding that the question of formal action by the Congress will not arise until completion of the detailed negotiations, probably sometime in 1971, contemplated by the communique.

REDUCTION IN NUMBER OF PERSONNEL

Mr. SHRIVER. Although your program request is being reduced by over 75 percent, you project a reduction in the number of all employees of only 19 from the 319 you had in fiscal 1970. Why such a small reduction in personnel?

General LAMPERT. The 1971 program provides for an end strength of 286 permanent positions, a reduction of 32 personnel from the 1970 end strength of 318. The 19 reduction referred to is a reduction in the average strength; that is, man-years. Thus a reduction of 19 man-years will be realized over a 12-month period in effecting the reduction of 32 personnel for that same period. While it is true that our program has been reduced from $17.5 million to $3.8 million in project series 8730, "Aid to Ryukyuan Economy," personnel are required to accomplish the new and additional workload imposed by problems of reversion, and for continuing workload on programs supported by the general fund, as well as, for continuing functions in such fields as public safety, health, and welfare.

PUBLIC INFORMATION PROGRAM

Mr. SHRIVER. You have reduced the information programs to one-half the former level, but you say on page 12 of the justifications further expenditures are necessary to explain probably further reductions in Ryukyuan employees of U.S. Forces on the islands. We were told for years to get out of Okinawa, and now that we're beginning to do so, we have to calm the inhabitants. Why wouldn't something like this be better accomplished by the Japanese Government?

General LAMPERT. The United States will continue to be responsible for administration of the Ryukyu Islands until the reversion to Japan actually takes place. We expect that our bases in Okinawa will remain after reversion in generally the same status as our bases in Japan proper. It is, therefore, in our own interest as much as it is in the interest of the Government of Japan, to achieve in the Ryukyu Islands the necessary public understanding and cooperation of our actions, although they may on occasion be disagreeable, such as reduction in our Ryukyuan employees. For this reason we feel it necessary to continue the information program at the level proposed.

STATUS OF FORCES AGREEMENT

Mr. SHRIVER. You also mention on page 12 the application of status of forces agreement to U.S. servicemen. Would you explain this further in view of the current situation on the islands?

General LAMPERT. As will be recalled, under the terms of article 3 of the Treaty of Peace with Japan, the United States is now exercising all and any powers of administration, legislation, and jurisdiction over the Ryukyu Islands. Under these terms, the United States has developed its base on Okinawa and has been responsible for the administrative authority in the islands. Upon return of the administrative rights to Japan, the provisions of the Treaty of Mutual Cooperation and Security between the United States and Japan will be applied to Okinawa. This will include the more detailed administrative arrangements found in the agreement under article VI of the treaty regarding facilities and areas and the status of the U.S. Armed Forces in Japan. Over the years, this agreement has been the basis for a large number of detailed arrangements governing the activity of our military forces in Japan and many of these will apply to the Ryukyu Islands after reversion.

OPERATING EXPENSES

Mr. SHRIVER. What percentage of the funds requested on page 13 under "Operating expenses" will be used for facilities which will remain in operation after the completion of reversion? It would seem that these items should be funded under the defense appropriation, shouldn't they?

General LAMPERT. No ARIA funds will be used for current USCAR facilities remaining in operation after reversion. The building presently occupied by the U.S. Civil Administration, Ryukyu Islands, will revert to the U.S. Army. It is expected that required funds will be forthcoming from the defense appropriation for its continued operation.

RYUKYU TRAVEL UNIT

Mr. SHRIVER. On page 14 you are requesting $11,000 for the compensation of the Japanese nationals employed by USCAR's Ryukyu travel unit in Japan. Why are we continuing to pay for this unit?

General LAMPERT. The Japanese nationals employed by USCAR's Ryukyu travel unit in Japan are primarily concerned with processing of entry applications to Okinawa. Much of the agitation against the U.S. bases in the Ryukyu Islands is aided and abetted by leftist organizations in Japan. By maintaining controls over entry, the United States is able to dissuade or deny entry of radical and other undesirable individuals. During the past fiscal year 142,518 applications were processed by this group—739 of these applicants were denied entry.

INCREASE IN GENERAL FUND AND JAPANESE AID LEVELS

Mr. SHRIVER. On page 17 it is stated that the reduction in our aid to the Ryukyuan economy is expected to be more than offset by increases in aid from the USCAR general fund and the Government of Japan. Would you be more specific as to the amounts involved in this statement?

General LAMPERT. Yes sir, the ARIA budget request for aid to the Ryukyuan economy in 1971 is $3,845,000, $13,655,000 less than the planned $17,500,000 obligations in 1970. The general fund program will increase $6,632,000, from $17,107,000 to $23,739,000; and that of the Government of Japan $28,522,000, from $63,192,000 to $91,714,000.

PUBLIC SAFETY SERVICES PROJECT

Mr. SHRIVER. Also on page 17 you say the fiscal 1971 requests involve only those urgent on-going programs which are 1, considered to be of direct interest to the United States; 2, which will still contribute to the economic and social development of the Ryukyus; and 3, be responsive to our needs and obligations at this time. We will study some of the specific requests with these three criteria in mind. Concerning the request of $1,250,000 for "Public safety services," you say on page 18 that this amount will be needed "to bring U.S. support more in line with the rising costs of these services." How many U.S. troops are in the Ryukus compared to those serving in Europe? Do we support similar services in countries where our troops are stationed in Europe? How much do our military bases inject into the Ryukyuan economy each year?

General LAMPERT. The U.S. troop strength in Okinawa is considerably less than in Europe. We do not support similar services in Europe. We provided for this reimbursement to the Government of Ryukyu Islands under section 4b of Public Law 86–629 only because of our governmental responsibility there. After reversion, this payment will cease. It is estimated that in 1969 the U.S. military bases injected some $209 million into the Ryukyuan economy.

PUBLIC HEALTH AND SANITATION SERVICES PROJECT

Mr. SHRIVER. Will the public health and sanitation services project continue after reversion?

General LAMPERT. No, sir; this responsibility will revert to Japan after reversion. The United States funding requirements will cease upon formal transfer of administrative authority to Japan.

Mr. SHRIVER. What is the difference between this program and the disease control program on page 20? Does Japan contribute to these and the leprosaria program on page 20?

General LAMPERT. The public health and sanitation services encompass the fields of environmental sanitation, prevention and treatment of infectious diseases, food sanitation, and quarantine. These programs are operated by the GRI and include such things as surveillance of refuse disposal, insecticide spraying to control insect breeding, operation of an islandwide hospital and health center system, inspection of eating and drinking establishments, and quarantine stations at civil air and sea ports for international travel, and shipping to prevent introduction of diseases from other countries.

The disease control program is concerned with the purchase of drugs, medical supplies, equipment for disease control programs of tuberculosis, Japanese "B" encephalitis, filariasis, venereal disease, polio immunization, trachoma, measles vaccine, and parasite control.

While Japan does not contribute to these programs, it does have parallel health programs which mesh with these. An example of this is the tuberculosis program of Japan which provides for X-ray, inoculation, and examination as well as hospitalization in Japan.

The leprosaria program listed on page 20 concerns itself with improvements to facilities. The Japanese program provides for drugs, hospitalization in Japan, and allowances for discharged patients.

TRANSPORTATION COSTS OF DONATED WELFARE SUPPLIES

Mr. SHRIVER. Will Japan take over the transportation expenses for welfare supplies donated to the Ryukyuan people by voluntary aid organizations in the United States after the reversion has been completed?

General LAMPERT. I don't believe it is likely that the GOJ would agree to pay transportation charges for shipment of welfare supplies donated to the Ryukyuan people by U.S. voluntary agencies. However, voluntary agencies registered with the Advisory Committee on Voluntary Foreign Aid have access to funds appropriated to the Agency for International Development (AID) for shipment of welfare supplies. The agencies also have limited funds of their own which may be used for this purpose.

ON-THE-JOB TRAINING PROGRAM

Mr. SHRIVER. What is the justification for continuing to pay for the on-the-job training program described on page 24? Are these jobs primarily with U.S. forces on the islands?

General LAMPERT. The on-the-job training program is entirely with the U.S. forces on the islands. While it provides for practical training for basic skills in the industrial arts, it also provides basic training for graduate engineers, medical students and technicians, and veterinarians.

This program is beneficial to the United States since it provides workforce training in short personnel supply fields, giving the individual selected an opportunity to apply his knowledge on practical situations, and in the process serves to provide a skilled labor force for the future.

TOTAL U.S. AID IN FISCAL YEAR 1971

Mr. SHRIVER. what is the total of other forms of assistance requested for fiscal 1971 for the Ryukyus including food assistance and other programs?

General LAMPERT. In 1971, in addition to the $3,845,000 in this appropriation we anticipate having the use of $23,739,000 from the general fund revenues to be spent on civil works and other projects and $2 million aid in kind under the food for freedom Public Law 83–480) program.

Mr. PASSMAN. Thank you, Mr. Shriver.

Mrs. Reid, do you have any questions?

SALE OF ASSETS TO JAPAN

Mrs. REID. Since it has been announced that the Ryukyu Islands are to be returned to Japan in 1972, do you anticipate the Japanese paying for the permanent structures which will remain?

General LAMPERT. There are certain civil assets such as the public utilities system which we expect to sell.

U.S. INVESTMENT IN THE RYUKYU ISLANDS

Mrs. REID. How much have we the United States invested in the islands since we acquired them after the war?

General LAMPERT. The total U.S. investment in the Ryukyu Islands as of June 30, 1969 was estimated at $680,000,000.

DISPOSITION OF SURPLUS EQUIPMENT

Mrs. REID. Equipment in the form of trucks, jeeps, and so forth, are in large quantities on our bases in Okinawa which are parked there from Vietnam. Many of these items will be declared surplus. Do you anticipate that those interested U.S. businessmen will have an opportunity to bid on these items?

General LAMPERT. Interested U.S. businessmen on Okinawa have had an opportunity to bid on items declared surplus in the past. We anticipate no change in this policy. Interested U.S. businessmen will continue to have an opportunity to bid on all surplus items.

TOTAL U.S. AID TO THE RYUKYU ISLANDS

Mrs. REID. Could you give or supply for the record the amount of money we have put into the islands since we took them over after World War II?

General LAMPERT. Total U.S. aid provided to the Ryukyus from all sources, fiscal year 1947 through fiscal year 1970, amounted to $370,850,000.

JAPANESE AID TO THE RYUKYU ISLANDS

Mrs. REID. In last year's hearings it was noted that Japan increased its aid program to the Ryukyu Islands from a level of $2.8 million in fiscal year 1963 to $42.7 million in fiscal year 1969. Has there been any further increase in the aid given by Japan?

General LAMPERT. There is a continuing increase in Japanese assistance. For fiscal year 1970 Japanese assistance to the Ryukyu Islands is $63.2 million. The current proposal being considered for fiscal year 1971 is $91.7 million.

SCHOLARSHIP PROGRAM

Mrs. REID. How many Ryukyuans received scholarships to U.S. colleges and universities in the last fiscal year? Do these students tend to return to the islands after they graduate or do they go elsewhere?

General LAMPERT. There were 54 scholarships given to Ryukyuans in fiscal year 1970. Virtually all of the Ryukyuan students return to the Ryukyus upon graduation.

GROWING STRATEGIC IMPORTANCE OF REPUBLIC OF CHINA

Mr. PASSMAN. Thank you, Mrs. Reid.

General, in your opinion, do you feel that the importance of the Republic of China, our stanch ally, whose defense capability is vital to the national interest of the United States, has greatly increased with the pending reversion of Okinawa to Japan?

General LAMPERT. As must be appreciated Mr. Chairman, my primary area of responsibility for the past year or more has been as High Commissioner of the Ryukyu Islands. It is, therefore, most difficult from this position to evaluate fully whether there have been changes brought about in the role of the Republic of China with the pending reversion of Okinawa to Japan. However, it will be recalled that in the joint communique issued following the meetings between the President and the Prime Minister of Japan last November, the President referred to the United States treaty obligations to the Republic of China which we would uphold. At that same time, Prime Minister Sato said that the maintenance of peace and security in the Taiwan area was also a most important factor for the security of Japan. It would seem that these statements are an indication of the importance with which the Republic of China is being viewed.

Mr. PASSMAN. Is it not true that upon the reversion of the Ryukyu Islands, even though we will maintain our base rights, some of the flexibility we now enjoy as sovereign administrators of these islands will be lost?

General LAMPERT. In general terms it could be considered correct to believe that after reversion there may be a reduction of some of the flexibility which we now enjoy in the use of the bases on Okinawa.

POSSIBLE LOSS OF BASE RIGHTS IN OKINAWA

Mr. PASSMAN. There is even the possibility that at some future date we will lose the right to maintain bases on Okinawa completely as has happened in other countries in years past, is that not true?

General LAMPERT. History has shown that where military bases are located in other countries, the possibility is always present that such bases could be lost. This could also be the case with the bases on Okinawa, but there is no indication of this happening.

Mr. PASSMAN. Thank you gentlemen for your testimony this afternoon. We hope the committee can get out to see you this fall.

TUESDAY, MARCH 10, 1970.

MILITARY ASSISTANCE PROGRAM

WITNESSES

HON. MELVIN R. LAIRD, SECRETARY OF DEFENSE
GEN. EARLE G. WHEELER, U.S. ARMY, CHAIRMAN OF THE JOINT CHIEFS OF STAFF
LT. GEN. ROBERT H. WARREN, U.S. AIR FORCE, DEPUTY ASSISTANT SECRETARY OF DEFENSE (ISA) FOR MILITARY ASSISTANCE AND SALES
RICHARD G. CAPEN, ASSISTANT TO THE SECRETARY OF DEFENSE FOR LEGISLATIVE AFFAIRS
PETER R. KNAUR, ASSISTANT FOR SPECIAL PROJECTS, INTERNATIONAL SECURITY AFFAIRS, DEPARTMENT OF DEFENSE
CAPT. ANDREW J. VALENTINE, U.S. NAVY, LEGAL AND LEGISLATIVE ASSISTANT TO THE CHAIRMAN, JOINT CHIEFS OF STAFF
CHRISTIAN A. CHAPMAN, DIRECTOR FOR MILITARY ASSISTANCE AND SALES, BUREAU OF POLITICO-MILITARY AFFAIRS, DEPARTMENT OF STATE
ALEXANDER SCHNEE, OFFICE OF THE ASSISTANT SECRETARY OF STATE FOR CONGRESSIONAL RELATIONS
ROBERT G. RATH, COMPTROLLER, MILITARY ASSISTANCE AND SALES, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (ISA)
LEONARD A. ALNE, DEPUTY DIRECTOR FOR INTERNATIONAL SALES NEGOTIATIONS, MILITARY ASSISTANCE AND SALES, ISA
COL. FRANK E. BURDELL, JR., U.S. ARMY, OFFICE OF THE ASSISTANT FOR SPECIAL PROJECTS, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (ISA)

42-439—70—pt. 1——20

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	Budget plan (amounts for military assistance actions programed)			Obligations		
	1969 actual	1970 estimate	1971 estimate	1969 actual	1970 estimate	1971 estimate
Program by activities: Grant aid operations:						
Reservations for requirements ordered from U.S. military services (22 U.S.C. 1819):						
1. Aircraft	51,829	55,027	54,595	44,016	46,525	48,081
2. Ships	14,193	16,480	21,833	15,874	13,958	19,618
3. Tanks, other vehicles, and weapons	42,243	35,753	35,475	36,588	30,253	31,918
4. Ammunition	34,017	27,485	24,544	30,906	25,577	24,553
5. Missiles	5,543	5,475	5,451	5,328	4,653	4,886
6. Electronic equipment	24,725	24,748	21,833	25,199	23,263	22,073
7. Military public works	169			85		
8. Other	125,090	116,355	112,982	97,455	89,239	89,584
Adjustment of prior year reservations				−9,694		
Subtotal	297,809	281,323	276,713	245,756	233,468	240,713
Obligations for requirement other than through reservations:						
9. Offshore procurement	4,907	3,307	517	3,522	3,307	517
10. Supply operations	65,319	70,500	61,500	63,293	70,500	61,500
11. Training	36,827	34,500	34,000	33,660	34,500	34,000
12. Administration	18,506	18,600	18,000	17,740	18,600	18,000
13. Contributions for international military headquarters	25,049			22,396		
15. Other activities	1,259	770	1,270	406	770	1,270
Adjustment of prior year obligations				−5,639		
Subtotal	151,867	127,677	115,287	135,379	127,677	115,287
Total, obligations (reservations)	449,676	409,000	392,000	381,135	361,145	356,000
Financing:						
Receipts and reimbursements from: Non-Federal sources (22 U.S.C. 2355)	−6,280	−6,000	−6,000	−6,280	−6,000	−6,000
Unobligated balance available, start of year	−5,001	−5,145		−5,001	−5,145	
Reprograming from prior year budget plans	−68,540	−47,855	−36,000			
Unobligated balance available, end of year	5,145			5,145		
Budget authority (appropriation)	375,000	350,000	350,000	375,000	350,000	350,000
Relation of obligations to outlays:						
Obligations incurred, net				374,855	355,145	350,000
Obligated balance, start of year				974,802	739,029	629,174
Obligated balance, end of year				−739,029	−629,174	−559,174
Outlays				610,629	465,000	420,000

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
Grant aid operations:			
Reservations:			
Other services	6,692	10,476	10,072
Supplies and materials	124,587	108,993	108,951
Equipment	114,477	113,999	121,690
Total, grant aid operations	245,756	233,468	240,713
Obligations for requirements other than through reservations:			
Personnel compensation:			
Permanent positions	12,144	10,252	10,061
Positions other than permanent	3	16	16
Other personnel compensation	159	184	174
Total, personnel compensation	12,307	10,452	10,251
Personnel benefits:			
Civilian employees	1,405	902	878
Military personnel	2,120	2,289	2,056
Travel and transportation of persons	14,437	12,159	10,914
Transportation of things	30,676	30,441	27,118
Rent, communications, and utilities	3,168	2,883	2,702
Printing and reproduction	167	173	168
Other services	47,129	60,690	54,479
Supplies and materials	9,476	6,762	5,895
Equipment	−5,204	926	826
Grants, subsidies, and contributions	19,700		
Total obligations for requirements other than through reservations	135,379	127,677	115,287
Total obligations/reservations	381,135	361,145	356,000
Obligations are distributed as follows:			
Secretary of Defense	3,139	2,875	2,925
Army	243,843	218,787	215,488
Navy	44,318	45,489	50,084
Air Force	86,054	90,064	83,728
State	3,781	3,930	3,775

PERSONNEL SUMMARY

Total number of permanent positions	1,554	1,215	1,148
Average number of all employees	1,502	1,177	1,117
Average GS grade	8.1	8.2	8.3
Average GS salary	$10,143	$11,383	$11,624
Average salary, positions authorized by 22 U.S.C. 2151	$28,140	$29,793	$30,227
Average grades, established by the Secretary of Defense	2.9	2.0	2.0
Average salaries, established by the Secretary of Defense	$21,359	$24,867	$25,696
Average salary of ungraded positions	$3,040	$3,229	$3,263

Mr. PASSMAN. The committee will come to order.

We will consider this afternoon the budget requests for the military assistance program for fiscal year 1971.

We have as witnesses our former colleague, the Honorable Melvin R. Laird, Secretary of Defense, and Gen. Earle G. Wheeler, chairman of the Joint Chiefs of Staff, and other supporting witnesses, whose names will be spread upon the record. In particular, I should mention General Warren, because we will be discussing the program with him in detail in the days that follow.

Mr. Secretary, do you have a statement to make to the committee?

Secretary LAIRD. I do, Mr. Chairman.

Mr. PASSMAN. Please proceed in your own way.

STATEMENT OF THE SECRETARY OF DEFENSE

Secretary LAIRD. Mr. Chairman and members of the committee:

Last year, when I testified before this subcommittee for the first time as a member of the executive branch, I stated my conviction "that the Military Assistance Program and Foreign Military Sales complement each other as parts of a controlled and restrained U.S. policy on arms transfers to our friends and allies." Since then, these twin instruments of national security and foreign policy have assumed even greater importance in light of their very significant potential contribution to the successful implementation of the Nixon doctrine. Their role in support of that doctrine is clearly delineated in the following statement of its key elements:

"The United States will keep all its treaty commitments.

"We shall provide a shield if a nuclear power threatens the freedom of a nation allied with us, or of a nation whose survival we consider vital to our security and the security of the region as a whole.

"In cases involving other types of aggression we shall furnish military and economic assistance when requested and as appropriate. But we shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defense."

The importance and urgency attached by the administration to acting upon the Nixon doctrine, and the other premises set forth in the President's recent message to the Congress on U.S. Foreign Policy for the 1970's, is underscored in that message by reference to the central thesis of the doctrine first announced by the President at Guam: "* * * That the United States will participate in the defense and development of allies and friends, but that America cannot—and will not—conceive all the plans, design all the programs, execute all the decisions, and undertake all the defense of the free nations of the world."

It is this forward-looking policy of peace through partnership which, as a key element of our new approach to defense planning, points directly to the need for a fuller use of the Military Assistance Program, MAP, and Foreign Military Sales, FMS, in support of its objectives. Our friends and allies cannot assume the greatly increased responsibilities we are asking them to undertake in their own defense unless we help them acquire the equipment and training needed to strengthen the capabilities of their armed forces. I cannot therefore stress too strongly my conviction that better understanding of the importance of both MAP and FMS, and greater public and Congressional support of these complementary elements of our total defense effort, are extremely important to the success of the Nixon doctrine.

Lack of such support in the past, combined with general concern about U.S. involvement overseas and the competing claims on total national resources of equally important domestic needs, has already led to a significant decline in the appropriations for military assistance. This decline has, in turn, made it increasingly difficult to realize the full potential contribution of MAP grant aid, in conjunction with credit-financed sales, to the attainment of the national security and foreign policy objectives both are designed to promote. The President's redefinition of those objectives now calls for a prompt halt in the declining trend of funds for military assistance, and points directly to

the desirability of putting both MAP and FMS to optimum use in helping to reduce the U.S. monetary and manpower burden inherent in honoring international obligations.

The basic policy of decreasing direct U.S. military involvement cannot be successful unless we provide our friends and allies, whether through grant aid or credit sales, with the material assistance necessary to insure the most effective possible contribution by the manpower they are willing and able to commit to their own and the common defense. Many of them simply do not command the resources or technical capabilities to assume greater responsibility for their own defense without such assistance. The challenging objectives of our new policy can, therefore, best be achieved when each partner does its share and contributes what it best can to the common effort. In the majority of cases, this means indigenous manpower organized into properly equipped and well-trained armed forces with the help of materiel, training, technology and specialized skills furnished by the United States through the Military Assistance Program or as Foreign Military Sales.

In my statement to a Joint Session of the Senate Armed Services and Appropriations Committees on February 24, I pointed out that: "The Military Assistance Program is the key to this approach. It is the essential ingredient of our policy if we are to honor our obligations, support our allies, and yet reduce the likelihood of having to commit American ground combat units. When looked at in these terms, a MAP dollar is of far greater value than a dollar spent directly on U.S. forces." I am reiterating that statement before this subcommittee because it underscores both my conviction as to the crucial importance of this program, and my very real concern that it be put to full use in promoting some of our most basic national interests.

I am not at all sure that we can do so within the limits of the $350 million authorization for fiscal year 1971 contained in the Foreign Assistance Act of 1969. As stated in the President's budget, "an additional authorization and a budget amendment for grant military assistance may be transmitted to the Congress if a further review of our needs indicates that such a request is justified." When that review is completed, the Congress will be fully informed about the nature and magnitude of any additional amounts we may find it necessary to request. And I want to assure you that, as has always been the case, such amounts will be derived from a thorough evaluation of recommendations from responsible military and civilian officials in the field and at the Departments of State and Defense, and that levels will be concurred in by the Bureau of the Budget.

In the meantime, however, we have no choice but to present today an illustrative program for fiscal year 1971 which is based on the $350 million authorization contained in the Foreign Assistance Act of 1969. By adding to this anticipated new obligational authority of $350 million another $42 million in estimated reappropriations, recoupments and reimbursements, we assume total fund availability of $392 million for grant military assistance in fiscal year 1971. The presentation we are beginning this afternoon is designed to give you all the facts and figures you may need to arrive at what I hope will be a favorable conclusion with respect to our request. I know I have satisfied myself that this program represents the most productive possible use

of available assets to promote highest priority MAP objectives and thereby facilitate implementation of the Nixon doctrine.

General Warren will, of course, address the detail of individual country programs and related nonregional elements of the proposed program. There are, however, several more general points I want to emphasize concerning the manner in which limited fund availability has dictated our choices as we have struggled to allocate military assistance where it will do the most good. The lack of flexibility in program development is especially frustrating in two areas. First, the very high percentage of total obligational authority required to provide for operation and maintenance costs which cannot be met by recipient nations from their own resources automatically limits to one-fifth the amount available for investment in urgently needed, and repeatedly deferred, modernization of the forces we are asking to assume greater responsibility for their own and the common defense.

Second, the importance of at least preventing a degradation in the capabilities of those same forces dictates the need to allocate almost 72 percent of total fund availability to the four forward defense countries where their contribution is especially significant—Korea, the Republic of China, Greece and Turkey. With nations in which we must insure the continuing availability of important base rights claiming another almost 10 percent, we are left with less than 20 percent of total assets for all other purposes. The problems inherent in allocating this small balance are obvious in light of the fact that it must be divided among 28 other countries in which the United States has important foreign policy interests, as well as a variety of nonregional expenses, including the funding of five area programs. Allocation of the 20 percent balance is already so austere that any significant reduction would defeat the whole purpose of the assistance. And since the forward defense and base rights country programs are also irreducible without unacceptable jeopardy to the security and defense posture of the United States, I can see no safe alternative to the appropriation of the full $350 million authorized for grant military assistance in fiscal year 1971.

Similarly, I see an equally urgent need for prompt authorization and appropriation of funds requested by the administration to provide credit associated with Foreign Military Sales in fiscal years 1970 and 1971. Our continuing resolution authority for the current fiscal year expired, as you know, on January 28; and negotiation of pending and approved credit-assisted sales cannot proceed until legislative action on our budget requests for fiscal years 1970 and 1971 is completed. Until it is, we cannot advance our efforts to comply with the law and carry out the policy of the administration by moving military assistance from a grant to a sales basis as the economies of some of the recipient countries become stronger and they become increasingly capable of financing at least a portion of their own defense requirements. The provision of credit to such countries helps them make approved purchases without impeding their development. By so doing, it also eases the transition from grant aid and lightens the burden on the U.S. taxpayer of maintaining an adequate total defense posture and keeping our commitments.

The Foreign Military Sales Act which authorizes both cash and credit sales is therefore an important instrument of U.S. policy.

Properly and effectively used, it serves a unique purpose by relieving some of the pressure on the limited funds available for grant military assistance which, hopefully, it will eventually completely replace.

All FMS transactions—both cash and credit—are strictly controlled to ensure that they are fully consistent with U.S. foreign policy interests and that they will neither exacerbate regional tensions nor promote arms races. When a proposed purchase meets the very strict criteria established by law and also by executive branch directives, it is clearly in the national interest for the United States to provide the credit needed to facilitate the sale. It is for this purpose that we are requesting $275 million for fiscal year 1970 and $272.5 million for fiscal year 1971.

Both this request, and that for the appropriation of $350 million for the fiscal year 1971 Military Assistance Program, are, in my opinion, fully consistent with the national interest; and I believe that favorable action thereon by the Congress is essential to effective implementation of the Nixon doctrine. Accordingly, I hope that my presentation this afternoon, and the answers I may make to your questions, will prompt this Committee to recommend approval of those requests.

Mr. PASSMAN. Thank you, Mr. Secretary, for your statement.

General Wheeler, do you have a statement? If so, please proceed.

STATEMENT OF CHAIRMAN OF THE JOINT CHIEFS OF STAFF

General WHEELER. Mr. Chairman and members of the committee, I ppreciate the opportunity to testify before this committee in support of the Military Assistance Program for fiscal year 1971 and Foreign Military Sales for fiscal years 1970 and 1971.

For some 20 years, the Military Assistance Program has been an important element in our national security policy. Through it, we have been able to help free world countries develop and maintain the military capabilities which they require in order to provide a credible deterrent to aggression and to maintain internal security. This, in turn, has enabled us to rely on our allies in areas where we have mutual security interests, thereby reducing the requirements for our own forces.

However, in recent years, reduced funds have made it difficult to achieve the objectives of the Military Assistance Program and the Joint Chiefs of Staff are increasingly concerned over the downward trend in appropriations.

U.S. security interests call for allocation of more than 80 percent of the total program to four key forward defense countries—Korea, the Republic of China, Greece, and Turkey—and three other countries where we have important bases and installations. This leaves only a relatively small portion of our military assistance assets to be divided among 41 other recipient nations. Programs for those nations are therefore too small—all but one under $5 million—to absorb any significant reduction without failing their purpose. For this reason, the impact of reduced appropriations has fallen most heavily on the few large country programs; and, since a very high percentage of Military Assistance Program funds is devoted to operations and maintenance costs which recipient countries cannot meet themselves, procurement of materiel items for these countries has been seriously curtailed. As a

result of our inability to replace obsolete and wornout equipment there has been a decline in the combat capabilities of those allied forces on whom we rely most heavily for our collective security.

The Foreign Assistance Act of 1969 authorizes the appropriation of $350 million for military assistance in fiscal years 1970 and 1971. The illustrative program for fiscal year 1971 is based on that authorization and can, therefore, provide only very limited amounts of materiel.

As a result, the difficulty in replacing wornout and obsolescent equipment will continue—and would be greatly magnified if the full amount authorized is not appropriated.

For certain countries, the problem of equipment replacement can be alleviated by credit purchases. Sales by the United States to these countries enable them to carry a greater share of the common defense burden. The Foreign Military Sales legislation will permit continued progress toward the objective of shifting from grant aid to sales as the recipient countries become economically more developed.

The Joint Chiefs of Staff consider Military Assistance and Sales to be an important aspect of the national security. I strongly urge the appropriation of the full program submission and that favorable consideration be given a request for additional funds if such a request should result from the review of military assistance requirements now underway.

Thank you, Mr. Chairman.

Mr. PASSMAN. Thank you for your statement, General Wheeler. We will get right into the examination of the budget request at this point, if you are ready.

Secretary LAIRD. We would be delighted to respond to any questions that you have, Mr. Chairman.

ADEQUACY OF FUNDING FOR FISCAL YEAR 1971

Mr. PASSMAN. Mr. Secretary, it is my understanding that the military assistance program estimate for the fiscal year 1971 is $350 million. This is only for fiscal year 1971 and it is limited to this amount necessarily because of the limitation in the authorizing legislation, is that correct?

Secretary LAIRD. That is correct, Mr. Chairman. I am not at all sure we can live within the limits of the authorization. That is why I have pointed out in my statement to you this afternoon that there is language in the President's budget message which indicates that a supplemental request is presently under consideration.

Mr. PASSMAN. I might say this, I hope that I have acquired a reputation of being a budget cutter, rather than one who increases appropriations. As I have said before, you should either have an adequate amount of funds to support the program or you should abolish it altogether. In a program like this, if it is only half-funded, it is worse than no funding at all. I feel that way about it. If the budget amendment is presented to the Congress, I know this Committee will certainly consider it in the light of our hearings last year, and the information that you have furnished to us this year.

FOREIGN MILITARY SALES PROGRAM

It is my understanding that last year you requested $275 million for your foreign military credit sales program for fiscal year 1970 and the Congress approved zero; is that correct?

Secretary LAIRD. That is correct. We have gone before the House Foreign Affairs Committee, and legislation covering Foreign Military Sales will be considered on the floor of the House. The committee has taken favorable action on this legislation; and it will be considered on the floor, we hope, within the next few weeks.

FMS TERMS AND INTEREST RATES

Mr. PASSMAN. As we think of the terms of the military sales, some of these sales are very short term, 2 to 5 years. What is the maximum maturity under the military credit sales program?

Secretary LAIRD. The maximum maturity on our present credit arrangements is 10 years.

Mr. PASSMAN. You have the same right to claim that this program improves our balance-of-payments situation by bringing home dollars just as the Export-Import Bank claims for the commodities it finances.

Secretary LAIRD. That is correct.

Mr. PASSMAN. On the basis of sales of commodities and improving our balance-of-payments situation, this would then be on a par with any other commodities that we sell on like terms?

Secretary LAIRD. That is correct, Mr. Chairman.

Mr. PASSMAN. All of the loans are repayable in dollars?

Secretary LAIRD. Repayable to the United States in dollars and with interest.

Mr. PASSMAN. What is the prevailing rate of interest?

Secretary LAIRD. The prevailing rate of interest is 7½ percent at the present time.

Mr. PASSMAN. In other words, you charge 7½ percent interest?

Secretary LAIRD. Yes, Mr. Chairman.

Mr. PASSMAN. That is about equal to what we have to pay to borrow the money. Do we break even or do we make a profit on the military sales?

Secretary LAIRD. If we go out and borrow, it might be a little bit higher than that. What we are trying to do is charge what it costs us, and this is about the current cost to the U.S. Government.

CONCESSIONARY TERMS OFFERED BY FRANCE

We do have difficulties in this area. As you know, Mr. Chairman, the French have gone forward with a very active military sales program. They are offering interest rates in South America and other sections of the world at about 4½ percent.

Mr. PASSMAN. In other words, they are charging a concessionary rate of interest so as to get the sale?

Secretary LAIRD. Yes, sir. They are out negotiating longer terms, too. They have gone as high as 15 and 20 years and have offered a very low interest rate. They have a very aggressive program. I point that out because many people are wondering why the French are selling so many Mirage aircraft at the present time. They have a very aggressive program and are offering longer terms and lower interest rates.

Mr. PASSMAN. I believe it is much better to sell equipment than it is to furnish it on a grant basis.

I want to commend you for your program of short terms and the interest rate that you are charging the countries that finance their military purchases under this program. I think that we have in previous years established that all of these countries are going to buy military equipment from some nation, and if we don't sell it to them they will buy it elsewhere, will they not?

Secretary LAIRD. That is correct, Mr. Chairman.

Mr. PASSMAN. That has been our experience.

Secretary LAIRD. We are finding that out, that an ever-increasing amount of military sales are being made on that basis. This is even true in our own hemisphere.

FMS INTEREST RATES

Mr. PASSMAN. If it is not classified, we would like to have placed in the record at this point a list of the military sales, by country, for the past 3 years. Show the progressive interest rates from the low of 5½ up to 7½ percent at this time.

Secretary LAIRD. Yes, sir.

Mr. PASSMAN. I think you have made a good case. This program is operated on a businesslike basis. It is not my right to be criticizing any legislative committee, but I can not understand why the authorization legislation was withheld last year.

Secretary LAIRD. Mr. Chairman, I will put a list in the record at this point.

(The information follows:)

FOREIGN MILITARY SALES CREDIT COUNTRIES—FISCAL YEAR 1967-68-69

Country	Amount of foreign military sales (dollars millions)	Percent interest charged
Fiscal year 1967:		
Argentina	9.2	———
Brazil	18.4	———
China	10.0	———
Iran [1]	161.0	———
———	———	———
Malaysia	4.5	———
Morocco	14.0	———
———	———	———
———	———	———
Sudan	1.5	———
1968:		
Argentina	4.3	———
Brazil	2.0	———
Ceylon	.3	———
Chile	3.6	———
China	26.0	———
Ecuador	.7	———
Iran	37.0	———
———	———	———
———	———	———
Uruguay	.3	———
1969:		
Argentina	11.0	———
Chile	11.0	———
China	20.0	———
Greece	20.0	———
Guatemala	.4	———
Iran [1]	65.0	———
———	———	———
———	———	———
Morocco [1]	9.5	———

[1] Indicates two separate arrangements.

Secretary LAIRD. We are hopeful that the legislation as reported from the House committee will be acted upon before the markup of your appropriation bill.

STATUS OF FISCAL YEAR 1970 SUPPLEMENTAL FUNDS

Mr. PASSMAN. You will have a request for fiscal year 1970 which will be handled as a supplemental, will it not, or do you intend to lump the 2 years together, 1970 and 1971?

Secretary LAIRD. It depends on when the program receives congressional clearance, but I would assume that we may require some supplemental funding in 1970.

Mr. PASSMAN. I ask the question, Mr. Secretary, because the fiscal year 1970 budget request for the military credit sales program is still pending before this committee. You also have a request for $272,500,000 for fiscal year 1971.

Secretary LAIRD. It may not be necessary to request a supplemental for fiscal year 1970 because, as I understand it, we do have a request for that year which is pending before the committee at the present time.

Mr. PASSMAN. It will be all-inclusive—the estimate for fiscal 1970 that we are holding waiting for an authorization, as well as your budget request for 1971. Could you also tell us the total amount that you are going to ask for military credit sales applicable to subsequent years beginning with the new fiscal year?

Secretary LAIRD. We have the request that is presently before the committee; and it would seem that the new obligational authority request for fiscal year 1971 will be approximately the same amount, $272.5 million. There is a ceiling of $385 million.

Mr. PASSMAN. For military credit sales?

Secretary LAIRD. Yes, for military credit sales. We are requesting, for fiscal year 1971, a total authorization of $385 million; $272.5 million of this is for new obligational authority of which $235 million is for direct FMS credit and $37.5 million is to guarantee $150 million of private financing which DOD hopes to arrange with private banks.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Secretary LAIRD. We have a proposed 3-year authorization for approved sales as reported out by the House Foreign Affairs Committee. I would like General Warren to address that at this time, if it is all right.

Mr. PASSMAN. If you would, General.

General WARREN. Mr. Chairman, the 3-year authorization for sales reported out by the committee was for 1970–72. We would hope, however, that the out years could be increased some because of the President's Doctrine and the fact that some countries are becoming better able to purchase equipment in the United States. So our target for fiscal year 1970, if we are fortunate in getting private credit, is a ceiling of $350 million. The difference between that amount and the new appropriation requested, represents private capital. We would have to guarantee any loans from private capital by putting up 25 percent of the total amount of such loans from this $272 million NOA.

Mr. PASSMAN. General Warren, if I recall correctly we included the $275 million in our appropriation bill for fiscal year 1970, but because the program was not authorized when we went to conference with the Senate the $275 million was dropped from the bill, is that correct?

Secretary LAIRD. The House included it in the money bill; but the appropriation was dropped out in conference, Mr. Chairman. We did not get an authorization last year.

Mr. PASSMAN. From the authorizing committee?

Secretary LAIRD. It did not come out of the authorizing committee, Mr. Chairman. The authorization and the appropriation were written in the appropriation bill.

Mr. PASSMAN. That is the point I am trying to clear up.

Secretary LAIRD. A request for one year.

Mr. PASSMAN. But it was never authorized. It was authorized in the sense we brought out the appropriation bill, protected by a rule, which contained the $275 million. We carried it all the way through to the conference with the Senate when it was dropped.

Secretary LAIRD. The House committee recently reported out a 3-year authorization. It is ready for the floor right now. It was reported out of the committee.

Mr. PASSMAN. It is before the Congress now?

Secretary LAIRD. Right. It is now a 3-year authorization; and it has been favorably acted upon by the House Foreign Affairs Committee, Mr. Chairman. I don't know when it is scheduled, but it has been reported out of the committee.

Mr. PASSMAN. That answers the question. Then we will expect to work against a subsequent authorization?

Secretary LAIRD. Yes, sir.

We would hope that that authorization would go through the Senate prior to that time. I have the authorization language here, Mr. Chairman. It reads: "Not to exceed $275 million for fiscal year 1970, not to exceed $272,500,000 for each of the fiscal years 1971 and 1972."

Mr. PASSMAN. That clears it up.

Secretary LAIRD. This was reported out——

Mr. PASSMAN. Inasmuch as we are dealing with an authorization for fiscal year 1970, it could be handled, of course, in the supplemental appropriation bill which the full committee is now considering?

Secretary LAIRD. Yes, sir. It was reported out of the committee on March 5, 1970.

THE NIXON DOCTRINE

Mr. PASSMAN. On page 1 of the justifications it is stated that the fiscal year 1971 allocation for the military assistance does not appear to provide the level of support essential to effective implementation of the Nixon doctrine. That was about what you said earlier, and I wonder if you would, Mr. Secretary, make a brief statement on the Nixon doctrine.

Secretary LAIRD. Mr. Chairman, the doctrine which was first enunciated at Guam by President Nixon and later amplified in some detail in his foreign policy report to the Congress this year, sets forth a new policy with respect to Asia and our whole program in the military affairs area. This doctrine enunciated by the President puts major emphasis on the United States providing a shield if a nuclear power threatens countries with which we have treaty obligations, as well as those countries which it is in the interests of the United States to protect.

It also places a major emphasis upon having our various allies throughout the world make a greater military contribution and provide to a greater extent for their own military security. It is based upon three principles: partnership, strength and negotiations. It gives the various countries of the world greater responsibility, particularly as far as ground forces are concerned.

NIXON DOCTRINE REQUIRES LARGER MILITARY ASSISTANCE APPROPRIATION

In view of this new policy pronouncement by the President, it seems absolutely necessary for everyone to understand that implementation will require larger military assistance programs. The total overall recurring costs in places like Asia and other places of the world will be reduced, but this will involve a higher military assistance program and more military sales.

The amount in the present bill, Mr. Chairman, is not enough to provide for certain modernization programs which will be needed in connection with the Nixon doctrine. I refer particularly to the Asian countries such as Korea and China. For example, if we are to start applying the Nixon Doctrine in that area, Korea will need a tremendous increase in its share of MAP appropriated funds to modernize its current ——— divisions in Korea. Very little funding has been available for modernization of Korean forces during the last 2 years.

Mr. LONG. Would the chairman yield at this point?

Mr. PASSMAN. I would assume the Secretary would like to finish his statement.

NUCLEAR SHIELD

Mr. LONG. I would like a clarifying statement. When you refer to a nuclear shield, are you talking about the strategic use of nuclear weapons or a tactical use?

Secretary LAIRD. When I refer to a nuclear shield, I am talking about the strategic use of nuclear weapons.

Mr. LONG. It bothers an awful lot of people who wonder whether if Russia were to move with either nuclear or non-nuclear, particularly non-nuclear, into Berlin or elsewhere in Germany, whether we would in the final analysis risk a nuclear exchange, strategic exchange with Russia, when the chips were down. This is bothering us and them, and I think it creates a tremendous area of uncertainty. I just feel in the final analysis we probably wouldn't do it. That is the way a lot of people feel.

Mr. PASSMAN. In all probability I am overwhelmed with my willingness to trust our civilian and military leaders. I think they are in a better position to know what is needed rather than I am sitting here at this committee table.

Mr. LONG. It will be a political decision.

Mr. PASSMAN. I am not disagreeing with you, Doctor.

Mr. LONG. This is not a question of trust. This is a question of judgment and high policy.

Mr. PASSMAN. What is the difference between judgment and trust? These people—executive and military—are in possession of the facts. I just can't believe that they would intentionally get us involved without having an abundance of proof that it was necessary. You have a good point, Doctor.

I have never hesitated, as far as I am concerned, to yield completely to their judgment and I hope I will never be disappointed. It is a good question and I am glad the doctor asked it.

NECESSITY FOR MODERNIZATION OF ARMED FORCES

Do you want to finish your statement, Mr. Secretary, as to what Korea would need?

Secretary LAIRD. As far as Asia is concerned, I have several tables I would like to insert at this point.

Mr. PASSMAN. I hope you will, Mr. Secretary.

Secretary LAIRD. I think General Wheeler would like to comment.

(Classified information furnished to the committee.)

General WHEELER. Mr. Chairman, I had the opportunity to visit Korea during October of last year in connection with Armed Forces Day. I saw the condition of the Korean equipment; their ground forces equipment is antiquated. It goes back to Korean War and even World War II.

I was particularly impressed also by the fact that their Air Force needs upgrading. They have only ——— F–4's which are capable of dealing with the Mig–21 inventory of over ——— in the North Korean Air Force. They also have some F–86's and F–5's in their inventory; ———.

Their navy needs help in the area of being able to protect the coastline against infiltration made by the North Koreans by sea. To do this, they must not only have patrol boats but better surveillance radars and equipment of that kind. I think Korea is probably an admirable example of what the Secretary was talking about when he said that if we are going to implement the Nixon doctrine, which places greater reliance on indigenous forces, this requires more in the way of military assistance in order that their forces would be able to cope with the Communist forces in the Asian area.

FUNDS FOR THE REPUBLIC OF CHINA

Mr. PASSMAN. General Wheeler, about a month ago I was in the barber shop and I had cut one of my sideburns. The barber said, "Stop scratching that, and let it heal." This is like some of the arguments we have had in this committee. If we scratch it, we may break the truce that is in effect at this time. You may recall the little difference of opinion we had about funds for the Republic of China last year.

Mr. Conte does not believe in earmarking funds. I have no particular feelings about that. However, I will say that the committee does have the right to earmark funds if it should decide to.

Referring now to the Republic of China, when I look at the record it would appear that in the past we have considered the Republic of China just as essential as the Republic of Korea. The total amount of aid that we have given to the Republic of China is $5,200 million and of that amount, $2,900 million was for military assistance. The total for Korea is about $7.8 billion, of which military assistance is $3.2 billion. We have furnished just about as much military assistance to the Republic of China as we have to Korea. It would appear that the Republic of China may have utilized the total amount of aid that we have given more advantageously than the Koreans or, for that

matter, many other countries, because China reached the point several years ago where we thought they could be self-supporting economically and could finance out of their own economy funds for military purposes.

Last year there was a very deep feeling among Members of Congress, which did not originate with me, that the amount in the military assistance budget for the Republic of China was far, far too little. During the debate on the authorization bill a squadron of F–4D's was mentioned. I have never thought I had the right to tell the Defense Department what type of equipment they should provide with the money we appropriate. I did ascertain the cost of a squadron of F–4D's. I think the acquisition cost was about $54.5 million, and that was the amount contained in the amendment to the authorization bill offered by Mr. Sikes on the floor of the House. He mentioned F–4D's. I, myself, referred strictly to additional military equipment, leaving the final judgment to General Warren, General Wheeler, and our Secretary of Defense. I don't think at any point anywhere you can find where I said anything about a squadron of F–4D's. I was talking about additional military assistance, believing, however, inasmuch as many believed it should be F–4D's, that the Defense Department, in its wisdom would decide to go in that direction.

Mr. CONTE. We don't have them ourselves.

Mr. PASSMAN. You don't get the point, Mr. Conte. I never said anything about F–4D's. Other Members may have moved on that basis. If you find where I said one word about F–4D's, I will buy you a box of cigars.

Mr. CONTE. If the gentleman would yield——

Mr. PASSMAN. Surely.

Mr. CONTE. I hate to get painted in the corner of the House. As the Secretary and everybody else knows in this room, I have been a strong supporter for military aid to Taiwan. I do not like anybody earmarking money for Taiwan, Spain, or anybody else. I am not going to stand for it.

As the chairman said here, you have explicit faith in these people on the other side of the table—and I have. Let them spend the money where they think they need it.

Mr. PASSMAN. Let me say again, I did not at any time anywhere indicate that the $54.5 million was to be for a squadron of F–4D's.

Mr. CONTE. I don't think anybody accused you of that.

Mr. PASSMAN. I want that understood. However, this committee, if it should decide in its wisdom to earmark funds, has the right to do so. The gentleman has a perfect right to disagree. I want the record to show that clearly.

Mr. CONTE. Mr. Chairman, when Mr. Long asked some questions, you turned around and said you have explicit faith in the civilians in the Defense Department to handle this matter.

Mr. PASSMAN. The gentleman does not know what I am leading into, and I ask him to be patient.

Mr. CONTE. You said you want to earmark money?

Mr. PASSMAN. No; I didn't say that. I said the committee has a right to do so. It is our prerogative and I will never agree that we do not have that right, if we should in our wisdom collectively or a majority, so decide. That is one major prerogative of the committee.

It has been my privilege to serve on the Appropriations Committee for 22 years, and this is my 16th year to chair this subcommittee and only on two or three occasions have we earmarked funds for specific countries. What I am trying to establish is not whether funds should or should not be earmarked, but to indicate clearly the strong support in the Congress for an adequate military assistance program for the Republic of China.

This earmarking of funds proviso had 10 different votes—in the subcommittee, the full committee, the floor of the House, and the conference, and we won at every station. When you singled it out in your recommittal motion, the vote was almost two to one for China. I am only indicating, Mr. Secretary, the very strong support that you have in the Congress for an adequate military assistance program for the Republic of China. Contrary to general belief, we didn't lose. The conference committee approved the $54.5 million for the Republic of China, and we brought the conference report back to the House and the distinguished gentleman from Massachusetts made a good case, but the House voted two to one in favor of China.

We reached agreement and my bag was packed to go home for Christmas. Then the Senate decided they were going to stick to the idea of no earmarking of funds or there would be no authorization bill. When we returned in January it was perfectly obvious that somebody had to give. We had other parts of this bill that meant a lot to the administration, such as the supporting assistance appropriations. I don't have to have my way. I want right to prevail, and I was perfectly willing to go back to conference and say, "Gentlemen, we won all the way through on this earmarking and we are not losing this time, but to get a conference report adopted we will yield on the $54.5 million."

I bring this matter up only to indicate that there is very strong support in the Congress for an adequate military assistance program for the Republic of China. I am wondering if the distinguished Secretary has some feelings about it?

What is your thinking about the value of the Republic of China, inasmuch as Okinawa will shortly revert back to Japan? It may turn out to be that the Republic of China will be far more important to us than it has been in the past. Do you have any feelings on that matter, Mr. Secretary?

Secretary LAIRD. Mr. Chairman, I would just like to state that I regretted the need to cut back the MAP funds made available for China in fiscal year 1970 as compared to fiscal year 1969. The MAP funding level for China in fiscal year 1969 was $36 million and for fiscal year 1970, it was $25 million.

As you know, for fiscal year 1970, the Congress found it necessary to reduce our Military Assistance Program from the request that I made before this committee of $425 million to $350 million. So the program that I outlined to this committee when I appeared here with General Wheeler and General Warren last year had to be reduced substantially, country by country. In order to find the $75 million in reductions, it was necessary for us to consider very carefully where to apply the cuts.

After careful study by General Warren's staff, we found it possible to hold China at $25 million and I approved the funding of MAP for the Republic of China at $25 million.

Mr. Chairman, I want you to know that an all-out effort was made by the Department of Defense to find other avenues which we could follow in order to increase the military preparedness of the Republic of China which we think is most important. We were able to move forward, and agreement has been reached to sell ——— to the Republic of China. The total acquisition cost was about ———. The purchase price to the Republic of China is ———. In addition to this, we were able to provide an additional Nike.

Hercules ———. We made available ——— aircraft. The acquisition cost of these aircraft was ———.

We provided ———.

We provided ———.

We provided ——— cost; ———.

———.

These were declared excess and were transferred to the Republic of China. The Nike-Hercules equipment was in very good condition. It had been ———, ———.

I believe that we did the very best we could do to satisfy the desires of the House of Representatives and the recommendations of this Committee in meeting Chinese requirements within the budgetary constraints under which we were compelled to operate.

Mr. PASSMAN. Mr. Secretary, I think that you have done a very excellent job in satisfying not only the Republic of China but Members of Congress. I think that the acquisition cost of the excess equipment was in the neighborhood of $157 million.

Secretary LAIRD. That is correct.

Mr. PASSMAN. Under the original budget presentation for last year's program, they would have received only $341,000 in excess equipment. Inasmuch as the funds were not adequate to provide new equipment, you provided excess stocks with an acquisition cost of $157 million?

Secretary LAIRD. They would have received, on the basis of the original presentation which we made to this Committee, approximately $25 million for fiscal year 1970. We were able subsequently to provide them another $157.3 million in excess stocks, making a total available of $182 million.

Mr. PASSMAN. I think it was a break for the Republic of China that you didn't get the $54.5 million. As a result of deleting the $54.5 million, you managed to scrape up $157 million in excess stocks.

Secretary LAIRD. I think it is very significant, when you stop and consider, that in 1966 the value of our military assistance to China was $96.9 million; in 1967, $93.6 million; in 1968, $100.8 million; and in 1969, $112.9 million. In 1970, with this excess package, it rose to $182.3 million.

In addition, Mr. Chairman, I think it should be pointed out that credit sales to China are expected to total about $40 million in 1970. We have estimated ——— of credit sales in 1971.

Mr. PASSMAN. Mr. Secretary, as far as I am concerned, and having an interest in your military assistance program, particularly for the Republic of China because of the marvelous record they have in building their economy, I think the record should show, if it is not classified, that last year you estimated excess stocks for China at $341,000.

Mr. LONG. Million?

Mr. PASSMAN. No, thousand. That is in the record.

Mr. LONG. I am puzzled. I thought it was million.

Secretary LAIRD. I would like to say to the chairman, and I am sure that the gentleman from Maryland understands, that the figure in question is a forecast. It is difficult for us to make such forecasts because we cannot tell exactly what is going to become excess in any one year. So I wouldn't want to put too much reliance on that kind of forecast.

The statement of the chairman of this committee is correct, based upon the amount of material that was available when that particular forecast was made.

Mr. PASSMAN. That is the only record I am trying to make.

The forecast and the justification indicated $341,000 in excess equipment. It turned out to be $157 million.

Secretary LAIRD. We made a great effort.

Mr. PASSMAN. You did make a great effort and I think all the members realize the importance of that effort.

Mr. LONG. I wish I know the significance of that. Does the chairman say if he had know the Defense Department was going to come through with $157 million of surplus aid that he would not have introduced his proposal for $54 million?

Mr. PASSMAN. No, I don't want any member of the committee to get any ideas that had I known this I would not have still insisted that funds be made available for the Republic of China.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. Let the record show that if I had all the information that I have now, I would have pursued the same fight for more funds for the Republic of China as I did last year because I recognize that there is a lot of slippage in this estimate as to what would go on the shelf and what would come off in the way of excess stocks.

Secretary LAIRD. Mr. Chairman, I want to make one thing clear before we get into an exchange with the delightful gentleman from Maryland and the chairman of this committee.

When I estimated that credit sales, to China would amount to $40 million in 1970 and ——— in 1971, I was giving you the earmarked figures. I don't want to imply that we can go forward with such sales until we receive the approval of this Committee and the approval of the authorizing legislation that was reported out by the House Foreign Affairs Committee on March 5.

Mr. PASSMAN. Mr. Secretary, as we move to another——

Mr. CONTE. Before you do——

Mr. PASSMAN. I am not leaving this yet. We have had an exchange of views about the importance of China.

Mr. CONTE. About airplanes?

Mr. PASSMAN. We have been in an exchange of remarks about Taiwan. Your original projection last year for excess stocks for China was $341,000. This year you indicate the utility value is $35,989,000; is that correct?

Secretary LAIRD. That is correct—for excess the acquisition value was $157.3 million, the utility value $35,989,000.

Mr. PASSMAN. If you recall, the original statement was that we placed great importance upon the Republic of China as well Korea.

And until about a year ago the amount of military assistance provided the two countries was running just about neck and neck. As it stands at this time, I think it is $2.9 billion for China against $3.2 billion for Korea. Is that correct?

Secretary LAIRD. That is correct.

Mr. PASSMAN. We still consider the Republic of China as a very essential and important ally in the Far East?

Secretary LAIRD. That is correct.

IMPORTANCE OF CHINA TO NATIONAL INTERESTS OF U.S.

Mr. PASSMAN. In the event funds could be made available out of an increased authorization and appropriation to provide a squadron of the F–4D's or E's for the Republic of China, there would be no objection? There would be no reason why China shouldn't have them if the funds were available, is that correct?

Secretary LAIRD. That is correct, Mr. Chairman, but let me say this. In considering the question of the additional aircraft for China, it is necessary for me to weigh the overall priorities within our Military Assistance Program. I would not want to imply by my answer that, under the funding level of $350 million, such an option would be available to us.

As you know, the Mutual Defense Treaty of 1954 with China is a very important treaty obligation of the United States. From the standpoint of fulfilling our obligations under that treaty, it is much cheaper for the United States to have Chinese carry the military role in that area than it is for the U.S. ground forces or U.S. Air Forces to be assigned there.

Mr. PASSMAN. Mr. Secretary, you have given us a very concise and understandable statement. It should please all members and they understand, as far as our foreign policy is concerned, that the Republic of China is just as important to us now and in the foreseeable future, as it has been in the past.

Secretary LAIRD. That is correct. There is no change as far as the treaty obligations of the U.S. Government are concerned. I believe that those obligations can only be changed by affirmative action of the Congress.

Mr. PASSMAN. We have had a very large military assistance program in the past, which cost us about $2.9 billion. That would, in itself, indicate the importance that we place on this piece of real estate referred to as the Republic of China. Is that correct?

Secretary LAIRD. That is correct.

Mr. PASSMAN. If we are going to maintain our present policy, sooner or later China's military forces, including the Air Force, is going to have to be updated and modern equipment will have to be provided, will it not?

Secretary LAIRD. It is important for the United States to maintain and enjoy the overflight, staging, and base rights, which, it seems to me, become more important as certain other events take place in the Far East. I don't look for a lessening of the importance of our Mutual Defense Treaty of 1954 with China. As a matter of fact, it may take on even greater significance.

Mr. PASSMAN. Then there will have to be a program at some subsequent date to modernize the armed forces of the Republic of China?

Secretary LAIRD. Yes; Mr. Chairman, there are several very interesting possibilities. I think it would be well at this point if the committee would permit me to discuss the action we have taken in the Department of Defense to move forward with the congressional mandate which we received last year. This was not a request that was made by the executive branch of the Government, but one initiated by the Congress.

Having come from the Congress, I believe that the Congress is a coequal branch of this Government and I——

Mr. PASSMAN. Equal——

Secretary LAIRD. Coequal with the executive branch.

DEVELOPMENT OF INTERNATIONAL FIGHTER AIRCRAFT

Mr. Chairman, as you know, we in the Department of Defense received a mandate from the Congress to move forward with an international fighter aircraft. This was not a request that originated in the executive branch; it was a request that originated in the Congress. An action was taken in both Houses which approved going forward with the development of an international fighter aircraft. We have never developed any aircraft for the Military Assistance Program or for foreign sales as such although the F–5 has been primarily used in that role. We have always used aircraft that have been developed for the U.S. military. Because I believe strongly in directions of the Congress, we did what we could to follow through on this mandate; and, on February 20, the Deputy Secretary of Defense approved a development concept paper which authorized the Air Force to issue a request for proposals for an international fighter aircraft. There are eight aircraft companies that are showing an interest in this international fighter aircraft. They are the Fairchild-Hiller Corp., General Dynamic, Ling Temco Vought, Lockheed Aircraft, McDonnell Douglas Aircraft, North American Rockwell Corp., Grumman Aircraft Engineering Corp., and the Northrop Corp.

Proposals on this international fighter from each of these aircraft companies are due early in April, and a source selection will be made sometime thereafter. I wouldn't want to give a definite date, but it is possible that we would be in a position to make such a selection soon after the middle of May. I don't want to say categorically that such a selection would be made at that time, however.

Mr. PASSMAN. That is an advanced aircraft? That is something even better than the F–4D?

Secretary LAIRD. This would be a cheaper aircraft. We envision an aircraft that would cost—and this is under the program level initiated and approved by the Congress—about $2.2 million each. The spares, training, and other parts of this program would add to its total cost.

Under the program level approved by the Congress last year, we would be funding approximately ———.

Thus, the total program cost through fiscal year 1975 would be in the neighborhood of about $1,141 million. I believe that it is incumbent upon me to outline the costs of this Congress-initiated program because it will have an effect upon the overall Military Assistance Program.

Some of these aircraft would be used in Vietnam; but, with a program level for possible purchase of ———, planes for use elsewhere would not be available in any substantial quantity until 1975 and 1976. Following the above representative funding plan, we would expect them to come into the inventory starting in 1973, ———.

I think it is incumbent for me to point out that this plane would be especially designed to meet the needs of the free world nations and that it would be easily maintained and capable of countering the MIG–21 threat at substantially less cost than that of many other aircraft. It would be a capable aircraft. I believe this committee should also be fully aware of the long-term costs of the program, not only as far as the Defense budget is concerned but also in terms of foreign aid appropriations. Probably the maximum number that would be used in Vietnam would be about ———. So the remaining aircraft would be largely MAP-associated. The instructions we received from the Congress indicate that this is a matter which should be brought to your attention.

A jurisdictional disagreement has developed within the Congress between the Armed Services Committees of the House and Senate and the Foreign Relations and Foreign Affairs Committees. I learned a long time ago, Mr. Chairman, to stay away from those jurisdictional fights within the Congress. I think this is something the Congress is going to have to resolve in its own way. It is something that, as Secretary of Defense, I can not resolve; and I think that I should stay out of it. I hope this committee understands why I am going to stay out of the jurisdictional dispute that is developing between the two very important legislative committees in the Senate and in the House.

Mr. PASSMAN. Mr. Secretary, knowing you as I do, and having had the privilege of serving with you in the Congress and on the Committee on Appropriations, it is no surprise for me to know that you want to have the accurate figures in the record as to this potential cost. An individual with integrity such as you have buys an awful lot in this committee.

Off the record.

(Discussion off the record.)

IMPORTANCE OF THE REPUBLIC OF CHINA AS AN ALLY

Mr. PASSMAN. I am not going to pursue this line of examination any further, but I did want to express on the record my feelings about the Republic of China.

Mr. CONTE. Would you yield, Mr. Chairman.

Mr. PASSMAN. I am thoroughly convinced that we recognize China as an important ally.

I yield.

Mr. CONTE. On the Republic of China, as you recall, Mr. Secretary, the amendment that I offered was not to cut the military assistance budget by $54.5 million. My amendment would have given the Secretary $54.5 million which he didn't get. My amendment was merely to strike the words "Republic of China." That is all.

As we wound up we had $54.5 million less than we would have gotten.

Mr. PASSMAN. No, we wouldn't have.

Mr. CONTE. Why not?

Mr. PASSMAN. I will tell you why. We had an authorization bill limiting the military assistance appropriation to a certain figure.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. Mr. Secretary, repeating, if I may—the Republic of China is still one of the so-called forward defense nations, along with Korea, Turkey, and Greece?

Secretary LAIRD. That is correct.

Mr. Chairman, in my discussion of the international fighter aircraft, I did not mean to imply that this was a program that might be applicable only to China. It is applicable to South Vietnam, Thailand, Korea. The aircraft could be used not only in China but in other countries where there might be a military need for it.

Mr. PASSMAN. The only thing I am trying to do is make sure there is no misunderstanding about our national policy. I support the policy of the administration. Your policy is to recognize the Republic of China as one of our key allies in that part of the world. Our aid investment of some $5.2 billion, of which approximately $3 billion was for military assistance, wouldn't have been made without believing that it was important to our national interest to have the Republic of China as an ally.

Is that your understanding?

Secretary LAIRD. Yes, Mr. Chairman.

I don't want to underestimate the amount of aid and assistance we are giving to the Republic of China in fiscal year 1970. I believe the Congress should know that this aid was made available largely through the efforts of the Congress and the support expressed through many votes in the House of Representatives. I take note of those rollcall votes.

Mr. PASSMAN. We have made it known, Mr. Secretary, because there were a lot of critics that we had to satisfy, and you have just reassured us that we still recognize the importance of the Republic of China.

Sooner or later we will have to modernize the Air Force of the Republic of China. If that should call for F–4D's or F–4E's, or the later version you mentioned, they will be made available?

Secretary LAIRD. Yes, sir, that is correct. We will consider this a high priority item——

Mr. PASSMAN. Thank you, Mr. Secretary.

Secretary LAIRD (continuing). ——— in keeping with our overall Military Assistance Program priorities.

PHILIPPINE ATTITUDE TOWARD THE UNITED STATES

Mr. PASSMAN. I never thought it was a sin for a person to state the facts as they are. I am thinking now of the Philippines, one of the greatest recipients of our generosity—other than Cuba—of any nation on the face of the earth. If any nation and its people should love the United States, it should be the people of the Philippines. The treatment that has been extended to our personnel recently, including that of the Ambassador and his staff, is not appreciated by this humble Member of Congress. Do you have any information as to the present

situation in the Philippines and as to the present regime's official feeling toward the United States?

Secretary LAIRD. ———

This is a matter that is of grave concern to me as Secretary of Defense; and I am sure it is of concern to the Joint Chiefs, the State Department, and everyone in our Government.

Do you want to comment on that?

General WHEELER. ——

Mr. PASSMAN. General Wheeler, they are a little closer to the Communist world than the United States is, are they not?

General WHEELER. Much closer, Mr. Chairman.

Mr. PASSMAN. They are intelligent people?

General WHEELER. Yes, they are.

Mr. PASSMAN. It would appear to me that those people would realize it is not the security of the United States that is at stake but the security of the free nations of the world, and that they have more at stake than we do.

General WHEELER. ———

Mr. PASSMAN. While we are pulling their chestnuts out of the fire, they pulled out the few peanuts they had in the fire in Vietnam and took them home, did they not?

General WHEELER. ———

Mr. PASSMAN. With the Philippines acting as they are and Okinawa reverting to Japan at an early date, then our other allies in the Far East become even more important to us.

Mr. LONG. Would the Chairman yield?

Mr. PASSMAN. Yes.

REVIEW OF U.S. OVERSEAS BASE NEEDS

Mr. LONG. This whole problem extends all the way up and down the coast of Asia. Are we undertaking a review of our whole base situation out there is the light of this type of thing that is going on everywhere—Japan, Philippines, Okinawa, and elsewhere?

General WHEELER. As a matter of fact, Dr. Long, we have already undertaken a——

Mr. LONG. I am on the Military Construction Subcommittee so I am interested.

General WHEELER. We have undertaken a very thorough review of the base structure in Japan. As you know, we are even undertaking certain actions on a State-Defense level to change the usage of certain areas and so on. What is going to happen in Okinawa is not clear yet because while there has been agreement in principle there has not as yet been a decision on what facilities Japanese forces are going to use, that kind of thing. This is yet to come.

In general terms, you could say that our base needs are under review right now on a rather broad basis. There are hard decisions that are going to have to be made, it seems to me, both in that part of the world and in other parts of the world. ——— We are undertaking a reexamination of that situation.

Mr. LONG. Wouldn't movement toward nuclear-powered naval vessels of all kinds reduce our dependence on bases to a large degree? At least so far as the Navy is concerned?

General WHEELER. Only to a degree, sir. You are still going to have to have some shore installations in order to provide the consumables—I am speaking now of the ammunition, food, and so on. Even though you don't need these installations to provide the fuel oil and things of that kind, you still are going to have to have an area or areas in which you can perform upkeep on even the nuclear-powered vessels. The advantage of the nuclear-powered vessels is that they can keep at sea for extended periods of time; in other words, without the necessity of slowing down to refuel and that kind of thing.

Mr. LONG. I think that this whole question in very important also to our AID program because so much of our aid is being given implicitly as rent for base rights of various kinds. So I would think that in reviewing our whole base situation it would be awfully important to our AID program to raise the question whether we have not been paying too much rent in view of the long-run prospects for these leases that we have.

General WHEELER. Some of them we can decide on that basis.

Mr. LONG. Aren't we paying basically rent in Spain for what we have there?

General WHEELER. I would not put that on the same basis ———.

Mr. LONG. Thank you.

Mr. PASSMAN. Mr. Secretary, before I yield to the ranking minority member of the subcommittee, there is one question I neglected to ask.

CHINESE SUPPORT OF U.S. POLICY

Of all the allies that we have in Asia, I don't believe at any time the Republic of China has whimpered or complained. They have stayed put and offered everything they have, have they not, in support of our policy?

Secretary LAIRD. Yes. The Republic of China has remained a strong supporter of U.S. policy.

Mr. PASSMAN. Firm, unbending, and uncomplaining as a usual thing?

Secretary LAIRD. Yes, sir. I don't know of any disputes that we have had with the Republic of China.

General WHEELER. I know of none.

Mr. PASSMAN. They have stood firm through thick and thin, rain or shine, summer and winter.

Secretary LAIRD. I think the U.S. Government has done the same, Mr. Chairman.

Mr. PASSMAN. I know we have.

Has that been true of the Philippines?

Secretary LAIRD. The Philippines have also supported U.S. policy.

Mr. PASSMAN. I don't think the Philippines have been as firm as the Republic of China. There is no harm in separating one from the other. That is all I am trying to do. I think we have been too soft, Mr. Secretary, when some of these people kick us around. We don't have to please everybody.

The quicker your people start telling them that, the better off we will be. Firmness is one thing, but just letting people push us around is something else.

Mr. RIEGLE. Mr. Chairman?

Mr. PASSMAN. Yes.

Mr. RIEGLE. What, in tangible terms, have the Taiwanese done in terms of a contribution in Vietnam?

Mr. PASSMAN. They have literally offered to sacrifice that island. They have said ———.

Secretary LAIRD. That is correct.

Mr. RIEGLE. We have taken that, as far as I understand it?

Secretary LAIRD. We have taken the only support they have offered which has been accepted by the South Vietnamese Government. That has been some welfare help, some medical teams, and aid of that type. They have provided medical assistance and medical teams within Vietnam.

Mr. RIEGLE. Modest or substantial?

Secretary LAIRD. I believe it runs over $1 million, but I don't want my answer to my friend from Michigan to imply that they have not offered more in the way of military aid.

Mr. PASSMAN. ———, Mr. Secretary?

Secretary LAIRD. ———.

Mr. PASSMAN. ———.

Secretary LAIRD. The decision would be made by the South Vietnamese Government, Mr. Chairman.

Mr. PASSMAN. I am talking about the willingness on the part of the Republic of China. They are willing, are they not?

Secretary LAIRD. Yes.

Mr. PASSMAN. I think we are using bases now in the Republic of China, are we not?

Secretary LAIRD. Yes, we are.

Mr. PASSMAN. Before I yield to Mr. Conte——

Mr. RIEGLE. May I——

Secretary LAIRD. I would like to point out, so there can be no misunderstanding about the matter, that the Republic of China now has in Vietnam, an agricultural team, a psychological warfare team, an electric power mission, and a surgical team. They have financed and trained 40 Vietnamese power engineers and technicians. Thirty-five of these were trained prior to 1968. They are also offering a good many others, ———.

Mr. PASSMAN. Repeating, if I may, all I am trying to do is indicate that we do have one very firm ally. We have others where it all depends on the time of the year, the political atmosphere, as to whether they will stick by us. That is the only thing I am trying to make clear. We poured a lot of money into other nations around the world that would like to boot us out.

Mr. RIEGLE. Mr. Chairman, if I could just finish what I was building up to. I think it is fine that they have offered their support. In fact, except for $1 million, this support has not been accepted——

Secretary LAIRD. I am sure—off the record.

(Discussion off the record.)

Mr. RIEGLE. The point I want to make is this: I think——

Secretary LAIRD. They are ready to go.

Mr. RIEGLE. I think if we were to add up the indirect economic benefits that are going to Taiwan by virtue of this massive American effort out in Southeast Asia for the last 8 years, I would guess

that just the commercial value of that activity alone to the Taiwanese has been something like, I would think, close to $100 million. If you just want to take it in terms of economic impact on Taiwan, I think that this is a policy that has been very productive for them from a dollars-and-cents point of view.

Secretary LAIRD. There is no question but that the Chinese——

Mr. RIEGLE. I am not surprised they are for it.

Secretary LAIRD. They are doing a lot of aircraft repair work for us, as well as tank maintenance and engine work. There is no question but that there has been some economic benefit to China. The question the chairman asked me was whether they were giving assistance, and they are.

Mr. PASSMAN. A true, willing, ally ready to extend whatever we ask for, we would assume from past experience.

Secretary LAIRD. I don't think there is a reluctance on their part to become involved——

Mr. PASSMAN. For that matter, the Republic of China is saving money for us by having this repair work done there, are they not? It helps the economy of the Republic of China, but nevertheless it is helping us also?

Secretary LAIRD. It is cheaper. I am finding that out from my experience with bases around the United States.

Mr. PASSMAN. We have made an investment of approximately $6 billion in the Republic of China. Do you consider it a good investment?

Secretary LAIRD. Yes, Mr. Chairman.

Mr. PASSMAN. Thank you, Mr. Secretary.

TOTAL FOREIGN AID IN BUDGET

May I make this observation, not connected with the Republic of China. A little over 23 years ago I stood in the well of the House and was sworn in with a young fellow from California named Richard M. Nixon. He was a terrific debater, factual, alert, and most impressive. I think he has the makings of an extremely strong President. I am just as convinced he has a positive plan to get us out of Vietnam as I am convinced that I am sitting at this table. But I am not convinced that our President is familiar with the foreign aid and assistance budget. I am going to ask for an appointment with him in the very near future and it is not my policy to worry Presidents. I would rather give favors than to ask favors. We are still working on this table but the total, at the moment, is shocking. I think it will be the largest foreign aid program in the history of America when you put all the little pieces together. The total amount in the budget for all brands of foreign aid and foreign assistance, good and bad, at the moment is $12,133,525,000, which exceeds by $1,605 million the total of last year.

I am not condemning all of it; some of it is good, but I cannot believe that the President of the United States knows that the imbedded bureaucrats have so inflated a lot of these program requests to a total of $12.1 billion. In addition, they have added above five new spigots of foreign aid and assistance.

Mr. CONTE. Mr. Chairman, I want to take this opportunity to welcome the Secretary of Defense on his second appearance before this

committee and tell him, as I did last year, that I was very pleased with his appointment and I knew he was going to do a good job. He has done a good job, a job that all Americans can be proud of, especially in regard to the war in Vietnam.

I know that many had to eat crow because the Secretary of Defense didn't turn out to be the hawk they all predicted. For the first time in all these years that we have been in an unpopular war in Vietnam we have had boys withdrawn from that conflict. Not only that, but his complete demeanor has been one of excellence.

We are proud, Mel, to have you here.

Secretary LAIRD. Thank you.

MILITARY ASSISTANCE FOR CHINA

Mr. CONTE. You did say that you came up to this committee last year and justified $25 million for Taiwan?

Secretary LAIRD. Yes, sir; that is correct.

Mr. CONTE. Military assistance?

Secretary LAIRD. Yes, sir. I think the military assistance part of the program totaled $25 million out of $425 million.

Mr. CONTE. That is right.

Secretary LAIRD. Thirty-six million dollars is the figure for 1969.

Mr. CONTE. That was $35,996,000, or approximately $36 million?

Secretary LAIRD. Yes, sir.

Mr. CONTE. Therefore, if we earmarked $54.5 million and you figured on spending $25 million out of the $425 million estimate you would have $30 million that you would have had to take away from some other countries' programs in your total military assistance program?

Secretary LAIRD. It would have required a reduction in other parts of the program, but not as large a reduction as we were required to make to accommodate the cut of $75 million which was imposed upon us by the Congress.

COMPARISON OF KOREA AND CHINA ARMED FORCES

Mr. CONTE. No doubt about that. I can also well appreciate that Korea has some unique problems.

I have never been to Korea, but I accept your word and the military word that their army has to be updated. Could you be a little more specific on that? Can you compare it with Taiwan; not that I think we should be playing one against the other. I think that Taiwan is essential to our line of command and strategy out there. How does the Korean Armed Forces compare with China's Armed Forces?

Secretary LAIRD. There are ——— Korean divisions. I could give you the breakdown as to the units.

In 1970, because of the ceiling imposed by the appropriation that was made available for military assistance, we had to cut back the Korean program to $140 million. This was the program ——— to keep within the $350 million authorization ceiling as established by the Congress last year. Korean military strengths are—army, ———; navy, ———; air force, ———.

Do you want me to compare those with China?

Mr. CONTE. Yes.

Secretary LAIRD. The army of China, ——— navy, ———, air force ———for a total of ———.

You can see that the difference between the Korean and the Chinese strength is attributable to the larger Korean Army. China has a larger navy and air force.

There are ——— infantry divisions in China. There are ——— Korean infantry divisions. Two of the Korean divisions, however, are currently serving in Vietnam; and one marine brigade—one-third of a marine division—is in South Vietnam at the present time.

NORTH KOREAN MILITARY STRENGTH

Do you want a rundown on North Korea?

Mr. CONTE. Yes, sir.

Secretary LAIRD. The North Korean Army is made up of ———. There are ——— in the navy; ——— in the air force; ——— in the internal security force; ——— and in what they call railroad police; and ——— in coastal security units.

These are all in the military, making a total of ——— approximately 400,000.

The North Korean Air Force is almost ——— the size of the South Korean Air Force. The respective aircraft inventories are North Korean, ———; South Korea, ———. Those figures are rounded.

Mr. CONTE. ——— in the South. What was the North?

Secretary LAIRD. ———.

General WHEELER. One of the things that is important, Mr. Conte, is that over ——— of the North Korean aircraft inventory are MIG–21's. They also have something on the order of ——— IL–18 bombers. I have a relative military strength, if you are interested in that. ——— Both countries, North and South Korea, are dependent on outside sources for support. I am speaking now of consumables such as ammunition, POL, and so forth.

Mr. LONG. Would the gentleman yield?

Mr. CONTE. Yes.

QUALITY OF SOUTH KOREAN FORCES

Mr. LONG. I was very impressed with what I have heard, that the Korean forces in Vietnam have been terrific, good soldiers, really tough.

Is this true of the South Korean forces in South Korea, or did they just send a couple of elite units to South Vietnam? Are they all up to that standard?

General WHEELER. No force is going to be equivalent across the board. Some of our units are better than others, too, Dr. Long. My impression of the South Korean forces as a whole, and I am speaking now of their army and air force, is very favorable indeed. As I say, I was last there in October and I happened to go out and watch them on an exercise in which they were feinting an attack from an infiltra-

tion from the sea by the North Koreans and it was extremely well done. This was just one of their ordinary divisions remaining behind in South Korea.

I would say that we count upon the South Korean armed forces as being a good military force. In my judgment they are probably the best indigenous force in the Far East.

Mr. LONG. How do they compare with North Koreans, man for man?

General WHEELER. Man for man they are just as good, ———.

NEED FOR MODERNIZATION OF ROK FORCES

Mr. LONG. ———.

General WHEELER. ———.

Mr. LONG. I am a little puzzled why we let this go so long. We would all concede it is cheaper to arm them than it is to keep our own people there. If all you need to do is give them good weapons, why isn't this a cheap way of handling it?

General WHEELER. It is a cheap way and that is what we advocate.

Mr. LONG. Why didn't we do this long ago?

Secretary LAIRD. The cost of modernizing the forces is high. Just to get a start in modernizing the forces and——

Mr. LONG. Isn't it cheaper to arm them as well than 50,000 of our own boys there?

Secretary LAIRD. We are considering a supplemental appropriation bill. Perhaps we will see the day when, instead of having to fund the continuing costs of the U.S. presence, we will be able to modernize their forces. It is a better investment in the long run than continuing to maintain large U.S. forces in the area. That is what the Nixon doctrine is all about.

I would like to add to General Wheeler's statement. I think it should be pointed out that the Korean forces in South Vietnam are better than the Korean forces in South Korea, simply because they have more modern equipment. The forces in South Vietnam have the most modern equipment. Isn't that true, General Wheeler?

General WHEELER. Yes. We have given the forces in South Vietnam exactly the same kind of armament that we have. In other words, they have the M16 rifles, grenade launchers—and in quantity. They have more armored personnel carriers, more helicopters, and things of that kind.

Mr. CONTE. You did not mean that man for man the South Korean forces in South Vietnam have inferior equipment?

General WHEELER. No.

Mr. CONTE. You meant in Korea as compared to the forces in South Vietnam?

General WHEELER. Correct.

SUPPLEMENTAL APPROPRIATION REQUEST

Mr. CONTE. Mr. Secretary, you mentioned several times the possibility of or the probability of a supplemental appropriation. Wouldn't this require a supplemental authorization?

Secretary LAIRD. It would, Mr. Conte. I happen to be in favor of a supplemental, but there are other departments within the executive

branch of the Government to be considered; and I don't want to mislead you. This has not been approved by the Bureau of the Budget. There is no supplemental ready to be transmitted at this time.

Mr. Chairman, I wanted to point out to the chairman and this committee that I am for it.

Mr. CONTE. The reason I mention that is because the session is getting on and we are moving pretty rapidly on the appropriation bills. It might be a good idea if they arive at a decision to send it up here as soon as possible.

Secretary LAIRD. I will do everything that I can to have supplemental presented to the Congress as soon as possible, but I wouldn't want to project a date.

Mr. CONTE. You have given me a pretty good comparison between the forces. In bringing the South Koreans up to date, we are removing a lot of troops from Vietnam. Is that equipment remaining there for the Vietnamese forces or can we take some of that equipment and bring it back to South Korea?

Secretary LAIRD. In many cases we are taking equipment right with us. The marine division that was taken out of Vietnam and transferred to Okinawa, took its equipment with it. They are in the same shape or even a little better equipped than they were when they left Okinawa to go to Vietnam. It is important that we keep the equipment with the units except for those units that are deactivated. When a unit is deactivated, there is some excess equipment which can be provided to other countries.

I think General Wheeler has something to add to that.

General WHEELER. For example, we have made certain excess equipment available to the South Vietnamese and certain of it is being put into other areas, too. I don't think that you could visualize equipping a force as large as the South Koreans with what will be excess coming out of Vietnam because of our own needs and those of the South Vietnamese.

KOREAN MAP SHORTFALLS

Mr. CONTE. What do the South Korean forces need to bring them up to proper strength?

Secretary LAIRD. Yes, I have a table on that.

This is a list of the MAP investment shortfall as of June 30, 1971—the total investment shortfall. This is a minimum estimate, I might add. It is ——— million. I will be glad to either read this into the record or give the committee a copy of the investment shortfall and the breakout.

Mr. CONTE. I imagine that is secret?

Secretary LAIRD. That is secret.

Mr. PASSMAN. Give us the same thing on other strategic nations in that part of the world.

Secretary LAIRD. Yes.

I personally believe that this is a minimum estimate.

Mr. CONTE. Mr. Secretary, could you give us all a copy of that?

Secretary LAIRD. I will.

I want to say that this is a minimum estimate as far as the Army and Navy are concerned. When you get into the aircraft area, the figure goes up considerably. Aircraft are not listed in this shortfall.

Mr. CONTE. On aircraft, are you talking about the new international plane assuming you get rid of the jurisdictional fight in the Congress——

Secretary LAIRD. These are shortfalls——

Mr. CONTE. Would they come into play here?

Secretary LAIRD. These are shortfalls for existing units only—existing units in South Korea. It is what the existing units presently require. If a buildup of the South Korean Air Force to meet the air challenge of North Korea were included, it would be in an entirely different projection.

Mr. CONTE. Much higher?

Secretary LAIRD. Much higher.

Mr. CONTE. I think we ought to have that. It would be very valuable.

Secretary LAIRD. They have some F–5's, of course.

Mr. COHELAN. Would the gentleman yield?

Mr. CONTE. Yes.

SIZE OF SOUTH KOREAN AND OTHER FORWARD DEFENSE FORCES

Mr. COHELAN. While we are at this point, Mr. Secretary and General. We are making a lot of assumptions here about ——— Korean divisions. My question I think relates to Mr. Conte's line of inquiry. What about their manpower in relation to standard TO & E? Aren't they overstrength for a country their size?

Secretary LAIRD. ———. I think we should plan our modernization program on the basis of modernizing ——— divisions.

Mr. COHELAN. How would that check out, Mr. Secretary, in terms of numbers? It is roughly ———?

Secretary LAIRD. ——— right.

General WHEELER. Approximately.

Mr. COHELAN. ——— divisions would be minus ———.

General WHEELER. It comes to around ———, if you take out all of the division supplies.

Mr. COHELAN. A divisional cost would be roughly what per division?

General WHEELER. I cannot answer that.

Secretary LAIRD. Let me supply for the record the cost of a Korean division. I know what it is for our divisions.

Mr. COHELAN. One of the things that has always bothered me is that the size of the force in Korea—in all the data that I have ever seen—it appears that Taiwan, Korea, and I think Turkey are overstrength. I think we ought to talk about these things a little more. ———. Could they not function with fewer men?

Secretary LAIRD. I would like General Wheeler to comment on that. I have recommended that our modernization program be based on modernizing ——— divisions, ———.

General WHEELER. I think ——— divisions for Korea with some reserve divisions that can be brought in in case of mobilization will

give them adequate force to defend the DMZ. You have been to Korea, I know, and you have seen that terrain. It is a very difficult terrain to defend because it is hilly and broken and mountainous. It takes a lot of troops to defend that kind of ground. A weakness in the South Korean forces is in the air. Also another weakness is this tremendous seacoast subject to infiltration attempts by North Korean saboteurs, ———. I think they could get by with ——— good divisions.

The Republic of China is moving ahead now to reduce its armed forces but they are trying to come down to a smaller, better armed, more mobile force. ———.

I would disagree with you that the Turkish forces are too large. They sit right on the flank of NATO and they are exposed on two flanks, the eastern flank and the western flank, to attack by Warsaw Pact forces.

Mr. COHELAN. What do you think is the proper T.O. & E. there General?

General WHEELER. I think they probably have about the right-sized force.

Mr. COHELAN. By our standards?

General WHEELER. By our standards. ———.

Mr. COHELAN. I will ask you some more questions about that later.

DETERRENT ROLE OF GRC FORCES

Mr. LONG. I was wondering whether the large armed force in the Republic of China is really defensive or whether to some extent we need a sort of oversized army to keep the Communists honest, in the sense that they have to consider these forces in deciding whether they make a venture in either Korea or North Vietnam.

General WHEELER. As a matter of fact, Dr. Long, you put your finger on what I think is probably the important point. The fact is that the Chinese Nationalists have as sizable an armed force as they do possess because the Chinese Communists concentrate very large forces on the mainland opposite Taiwan. ———. They are very sensitive about the presence of Taiwan sitting right across a rather narrow stretch of water.

Mr. LONG. With this, plus the Russian presence, they would be a little more conservative than they have in the past in making ventures into North Vietnam or Korea?

General WHEELER. They have been rather cautious, as you note.

Mr. LONG. Yes, they have.

NORTH AND SOUTH KOREAN DIVISION STRENGTH

Secretary LAIRD. Mr. Conte, I would like to point out the dfference in North and South Korean division strength. The North Koreans have ——— infantry divisions presently in being. The South Koreans have ——— infantry divisions two of which are in Vietnam at the present time. ——— of them are in the DMZ.

Mr. CONTE. And one in Vietnam?
Mr. COHELAN. Plus our two.

COMPARATIVE COST OF U.S. AND ROK DIVISIONS

Mr. CONTE. Incidentally, could you supply for the record, Mr. Secretary, what it would cost us to maintain our American troops in South Vietnam rather than the South Koreans 2⅓ divisions? In other words, give me a cost figure for what it costs to maintain Koreas as opposed to maintaining U.S. troops.

Secretary LAIRD. It is about one-half for a division.

Mr. CONTE. One-half less?

Secretary LAIRD. Yes, sir.

Mr. CONTE. What does it cost for about a division?

Secretary LAIRD. I will round these off and put the exact figures in the record. The cost of maintaining a U.S. division in Vietnam is $500 million per year.

U.S. SUPPORT COSTS FOR ROK FORCES IN VIETNAM

The total estimated fiscal year 1970 amount which was contained in the military functions appropriation to support the approximately 50,000 ROK forces in Vietnam and Related Costs was about ——— million. This does not include costs for mtaintaining the logistics organization necessary to provide support, nor the costs of providing combat support, such as air strikes, helo lift, etc.

Mr. PASSMAN. Just a minute.

Secretary LAIRD. The total cost of a Korean division is approximately one-half.

Mr. PASSMAN. If the gentleman would yield.

I know he wants the record all-inclusive. You have a double MAAG system in Korea and some other commitments we made that would have to be added to that to get the total cost, would it not?

Secretary LAIRD. That is correct.

Mr. PASSMAN. Thank you. Be sure and put that in. We don't like to get this on part of it. I am very familiar with the cost and we might as well put it all in.

REVERSION OF OKINAWA

Mr. CONTE. A lot has been said today about Okinawa generally. What are our plans for Okinawa if it does revert back to Japan? I imagine that we are going to still maintain some kind of lease or rental agreement. We don't plan to get out of Okinawa, do we?

Secretary LAIRD. No; there are no present plans for our moving out of Okinawa. There are going to be certain changes made. We intend to move the chemical warfare agents that were placed in Okinawa in 1962. We are going to move those out of there. Other changes will be made. The only reason we have not moved the chemicals off Okinawa is that we have not been able to get the final approval of the Department of Health, Education, and Welfare with respect to transportation. Under an act passed by the Congress, we must have approval for the movement of gas within the United States. We are the only department of government which has to have that kind of approval—

other departments and industry do not. Industry moves 99 percent of all the gas moved in this country, and it does not have to have the same kind of approval that we do in the Department of Defense.

I come from an area in which there was a lot of this phosgene gas and chlorine and so forth. The danger is the same except that when we move gas, we take all sorts of safety precautions along the railroad tracks, on the cars and in other areas. But we still have difficulty getting permits because the Public Health Service is somewhat reluctant to issue permits to us. We are the only ones that have to have them.

Mr. CONTE. As far as we are concerned, the military bases in Okinawa will remain the same?

Secretary LAIRD. That is correct.

WEAPONS AND DRUGS SHIPPED FROM VIETNAM

Mr. CONTE. The other day in one of my other subcommittees we went down to Customs and Commissioner Ambrose showed us the catch they made in 2 days of examining packages coming in from Vietnam at the San Francisco Post Office. It was just unbelievable, the amount of guns, weapons of war, grenades, plastic bombs, knives. I never saw so many American machineguns, .38 Colts, .45's, everything was there on a big, long table that could fill a truck. While I was in San Francisco with Congressman Cohelan, we saw pounds and pounds of marihuana that were coming in from Vietnam. They would put them into their suits and send them home or they would have a box marked camera, and so forth, and they would have plastic bags filled with marihuana and some hashish coming in from Vietnam. This seems to be a very serious problem, Mr. Secretary. What is Defense doing to stop it? Customs is sending some people over there and they are working with the officials.

Secretary LAIRD. It is a very serious problem. There are, unfortunately, a few military men, as well as American civilians who have become involved in this traffic. I do want to make it clear, however, Mr. Conte, that it is a very, very small portion or percentage of our military that has become involved with heroin, marihuana and other drug traffic. With a group that large, you are bound to have a few who will try to take advantage of the situation. I hope that does not reflect on all of the military who make a great contribution, not only in Vietnam, but in other areas here in the United States.

Mr. CONTE. You are cooperating with Customs in trying to stop this?

Secretary LAIRD. We are cooperating with them 100 percent. In the last few weeks we have been able to pick up considerable traffic in this area, and have a very intensive program to uncover this kind of wrongdoing, whether it be on the part of the military or that of civilians.

REVERSION OF OKINAWA

Mr. CONTE. Many people in Congress are under the impression that when Okinawa reverts we are going to pick up our gear and go home. We are going to maintain a military establishment there; are we not?

Secretary LAIRD. We are going to maintain a military establishment there, and we will be reimbursed for investment costs in Oki-

nawa. One of the things we are insisting upon in the negotiations on reversion is that we be reimbursed for investment costs incurred by the United States, even off base.

Mr. CONTE. Will there be much physical change? I cannot see too much of a physical change.

Secretary LAIRD. It depends.

Mr. CONTE. Like a power station?

Secretary LAIRD. Reversion does not affect the administration of the bases. It affects the administration of the island. I don't want to give the impression that there might not be various problems related to the U.S. presence in Okinawa. There may. Reversion deals with the administration of the island itself, not the administration or the control of the base.

Mr. CONTE. I can well imagine, if I may, Mr. Chairman, that if you ever start pulling out of Okinawa, you will have the same thing that happened in Naples the other day when they cut some personnel from the PX—1,500 Italians went on strike.

Secretary LAIRD. That has already happened in Okinawa.

Mr. PASSMAN. If the gentleman would yield—this is extremely important.

Mr. CONTE. Certainly.

Secretary LAIRD. In Okinawa, we have had a cutback in civilian employment within the last year; and now, instead of the protests urging us to go forward with the reversion the protest is against the reduction of jobs on the island.

Mr. PASSMAN. For complete clarification, if the gentleman would so kindly yield, we have complete control of Okinawa now, don't we?

Secretary LAIRD. We administer the island.

Mr. PASSMAN. When the reversion takes place, then it will become a part of sovereign Japan, will it not?

Secretary LAIRD. That is correct.

(Off the record discussion.)

Mr. PASSMAN. Aren't you going to have to deal with the agitators and the politicians, not only in Okinawa, but also the politicians in Japan?

Secretary LAIRD. That is correct.

Mr. PASSMAN. It is undetermined at this point just how stable that arrangement is going to be until reversion actually takes place and we start operating under the new agreement, is that right?

Secretary LAIRD. That is correct.

Mr. PASSMAN. Thank you very much, Mr. Conte, for yielding.

Secretary LAIRD. I want to make it clear that, thus far, since World War II, the Japanese have stood by all of their agreements with the United States. I don't want to give the impression here that we don't expect the Japanese to stand by this agreement. The attitude of the Japanese Government is toward support of their agreements and moving forward. The recent election in Japan gives further confirmation of that fact, it seems to me, Mr. Chairman.

Mr. PASSMAN. I certainly hope so. You indicated that you will know only after you have had some experience with the new agreement, and we will not have as free an access to the island as we have had under the present arrangement?

Secretary LAIRD. That is correct.

Mr. PASSMAN. Thank you, Mr. Conte.

FUTURE OF WESTOVER AIR BASE

Mr. CONTE. I recognize this is not within this committee's jurisdiction, but in a recent disclosure on cutting down bases, 145 employees were going to be laid off at Westover Air Force Base, which adjoins my district and is in Congressman Boland's district. I would hope that you can give us some idea of what the future of that base is going to be? Right now the people are up in the air. We are up in the air if we go home weekends. They ask us a lot of questions. We would like to know the answer. Congressman Boland asked me today if I would ask you that question. Give us some idea of what the future of that base is.

Secretary LAIRD. Fine. I will see that a letter goes to both you and to Mr. Boland.

Mr. CONTE. We would appreciate that.

U.S. POLICY IN LAOS

Mr. Secretary, last year I asked you on page 618 of the hearings whether a commitment to Laos would pull us into another Vietnam. Of course, the question today is even more relevant. We are hearing so much more in the Senate and in the newspapers now.

Could you tell us something about this?

Secretary LAIRD. My answer to the question today would be the same as last year. There has been no change as far as U.S. policy in Laos is concerned. The only difference is that we have announced some of the activities that are carried on by the U.S. Government at the request of the Royal Laotian Government. As far as policy is concerned, it has been the same in Laos during each of the last 4 years. That policy is that we will interdict movement of supplies on the Ho Chi Minh Trail. More supplies and more personnel are coming down the Ho Chi Minh Trail than before because not much is coming through the DMZ since the bombing halt.

The DMZ has not been used to any great extent as an avenue to insert people into South Vietnam. Almost all of the personnel come down the Ho Chi Minh Trail. This has been going on for the last year. Almost all of the personnel infiltrated have come that way. A major portion of the supplies and logistics support comes down the Ho Chi Minh Trail on the eastern side of Laos. We do interdict movement of supplies there by the use of air power. As far as the Plain of Jars in the northern section of Laos is concerned, we have been flying fighter support and air support missions in that area at the request of the Royal Laotian Government. We have had that policy for the last 3 or 4 years, and this does not represent a change in overall policy.

Mr. CONTE. I am just wondering whether the policy has been the same since 1959. I was there in 1959, General, to look at our economic assistance program. At that time I flew up to the Royal Laotian capital and went through all of the bases up there. I saw some of the airfields they had.

General WHEELER. I would say in 1962, when the Geneva Accords were signed, we followed the agreement and we ceased our Military Assistance Program. We pulled all of the advisers out of there. In

1963, as I recall, when it became apparent that the North Vietnamese had no intention of abiding by the agreements and instead were continuing their aggression against the Laotian Government, despite the fact that it was a so-called neutralist government that had been put into office under the aegis of the Soviets or the North Vietnamese, President Kennedy began again to give assistance to the Laotian Government. Actually, I would say that the policy being followed today is an extension of the policy that was established in 1963, or reinstitution of a policy in 1963.

What has occurred, Mr. Conte, is that over the years there has been a very substantial increase in the number of North Vietnamese forces operating in all of Laos, both in the south and in the north. There are some 67,000 North Vietnamese troops in Laos today. There are ——— divisions operating in the north in the Plain of Jars area. This is more than they have ever had before. Down along the Ho Chi Minh Trail they not only have combat troops but the so-called ——— transportation group which is the logistic element for forwarding logistic supplies from North Vietnam down the Ho Chi Minh Trail and into northern Cambodia and into South Vietnam.

The policy, as the Secretary said, in my judgment, is the same policy being implemented a little more vigorously because of the step-up in activity on the part of the North Vietnamese.

Mr. CONTE. It is still a supportive defensive policy?

General WHEELER. That is correct.

Mr. CONTE. Is it limited?

General WHEELER. That is correct. We agreed in the Geneva Accords to support the neutrality of Laos.

Secretary LAIRD. Mr. Conte, I want you to know that, as the Secretary of Defense, I support our activities in Laos from a military standpoint on the basis of the need to protect the safety and security of the American forces assigned to South Vietnam.

———.

Mr. LONG. Would the gentleman from Massachusetts yield?

Mr. CONTE. Right after this.

There is a question in my mind. I think that you can make out an argument for very limited presence in Laos. Unless things drastically changed in Laos—I remember going there in 1959, and coming back very dejected from what I had seen. The people, the soldiers, the advisers then under the Geneva Accords were in civilian clothes. They were actually marines and army boys training these men. These Laotians were the saddest sacks I have ever seen. I have many pictures that I took at this time. They had trained them for about 4 months, and you know that they learned to do—how to use a latrine. That is about the capability of the Laotians. I came back and I was really dejected.

You have heard the same cry a million times about what you have in Laos, you have a brother, half brother and cousin all striving to gain control of the country, bleeding the U.S., Soviets and anyone else they can get their paws on. I never in my life saw, in a little capital like that one, so many Mercedes Benz. It's the worst kettle of worms I had ever seen any place in the world.

Mr. PASSMAN. I am going to write a book on Laos someday.

Mr. CONTE. It is the worst situation that I ever saw. I could see your point.

That was terrible.

Mr. LONG. Would the gentleman yield on that point?

Mr. CONTE. Yes.

Mr. LONG. You said a little while ago that under the Geneva Accords we guaranteed Laos territorial integrity. It is my understanding the United States was not a signatory to the Geneva Accords.

Secretary LAIRD. Yes, we were. We signed the Geneva——

Mr. LONG. In 1954?

Secretary LAIRD. 1962. There were 12 countries involved in the Geneva Accords in 1962. The United States signed the Accords. They were negotiated——

Mr. LONG. You mean the 1954 Geneva Accords.

Secretary LAIRD. The Accords the General is talking about are the 1962 Geneva Accords signed by the United States.

Mr. LONG. The same Geneva accords you were talking about, Mr. Conte.

Mr. CONTE. That was the 1954 Geneva Accords.

Secretary LAIRD. The General was referring to the 1962 Accords. The gentleman from Massachusetts went on and discussed another Geneva agreement of 1954. That dealt with Indochina. There is no question but that the United States did undertake a guarantee in the 1962 Accords which were negotiated by Ambassador Harriman.

Mr. LONG. Is this ratified by Congress, accords, or purely executive agreement?

Secretary LAIRD. The Accords were not submitted to the Congress for ratification. Let me check that out. I am sure that President Kennedy felt that it was not necessary to submit them to the U.S. Senate. If you would like me to do so, I will put in the record the rationale used by President Kennedy.

(The information follows:)

RATIONALE USED BY PRESIDENT KENNEDY ON 1962 GENEVA ACCORDS

The United States concluded the Geneva Agreements of 1962 as an executive agreement. By virtue of the President's constitutional authority to serve as Commander-in-Chief and to conduct the foreign relations of the United States, he has adequate authority to enter into executive agreements such as this. The Geneva Agreements did not obligate the United States in any matter normally effected by treaty. In particular, the Geneva Agreements contain no obligation to use armed force in defense of any nation. No obligations created by the Geneva Agreements on Laos in any way impinge on the constitutional powers or prerogatives of the Congress. Although the Agreement was not submitted for the formal advice and consent of the Senate, the Executive acted only after full consideration with appropriate congressional committees and leaders.

Mr. LONG. I do think if we are supposed to be ratifying an accord and that is brought into Congress as a reason why we ought to be adopting a certain foreign policy sending troops there, I just can't see that if it has not previously been ratified by Congress.

Secretary LAIRD. I want to make it clear we are not sending combat troops to Laos. We have a total of approximately ——— military personnel in Laos. They are serving there as military attachés and as military personel who give military assistance. They are military assistants to the Royal Laotian Forces.

There are about ——— Army personnel but the major portion are Air Force personnel ———.

Mr. LONG. Is it possible to get a figure on the total manpower in Laos wearing all kinds of uniforms, including civilian mufti and so on?

Secretary LAIRD. They are not involved in combat operations in Laos.

Mr. LONG. I understand that, but I also understand that we have people there working for CIA. We have planes flying over there, bombing, and so on. Is it possible to get a figure on what the total number of Americans in Laos is, in one capacity or another?

Secretary LAIRD. The President gave the figure in his statement this weekend.

Mr. LONG. What was that figure?

Secretary LAIRD. 1,040 military and civilian.

Mr. LONG. All types?

Secretary LAIRD. Yes, sir.

Mr. LONG. Thank you.

Mr. PASSMAN. Mr. Secretary, your request for the military assistance program deals entirely with military requirements. If money is provided and spent for military equipment—military purposes—it wouldn't be in for any narcotics squads patrolling the border of Canada or other places?

Secretary LAIRD. No. We are not going to cover that without having it reprogramed by Congressman Rooney.

Mr. COHELAN. Mr. Secretary, off the record.

(Discussion off the record.)

PROPOSAL TO INCLUDE MILITARY ASSISTANCE IN DEFENSE BUDGET

Mr. CONTE. Mr. Secretary, on February 20, before a joint session of the two Senate Committees on Appropriations and Armed Services, you said, "We believe that military assistance should be integrated into a defense budget."

Do you want to speak to that? We would be interested in that.

Secretary LAIRD. I have felt for some time, and most studies of the matter have concluded, that the Military Assistance Program should be included as a part of the overall Defense budget because the U.S. military program and the Military Assistance Program are going to become more and more interrelated as we implement the Nixon Doctrine. It seems to me that consideration should be given by the Congress to handling the Military Assistance Program along with the Defense appropriation bill. I have tried to limit my remarks along this line to suggesting this consideration because I realize this is a matter that must be decided by the Congress itself. It is not a matter that can be decided by the executive branch of our Government because the Congress should decide on how it runs its own business. But I did suggest in my overall Defense report, which was sent your office, Congressman Conte, that consideration be given to this matter because these programs are going to become more interrelated in the future than they are at the present time.

Mr. CONTE. I would seem to think this would be consistent with the President's emphasis upon a lower posture in foreign affairs, too.

Secretary LAIRD. I believe that it would be.

Mr. CONTE. I think that you have already answered this question.

HIGHER MAP LEVELS CALLED FOR BY NIXON DOCTRINE

Mr. CONTE. Deputy Defense Secretary Packard recently testified that the Nixon doctrine will mean higher levels in military aid. I think that you testified it will. You will be giving more equipment and military hardware to the countries than personnel?

Secretary LAIRD. That is correct.

Mr. CONTE. You don't have any figures on how much higher?

Secretary LAIRD. I have submitted a projection for Korea. Perhaps it would be better to put another statement in the record at this point.

Mr. CONTE. All right.

(Classified material was submitted to the committee.)

IMPACT OF VIETNAMIZATION ON ECONOMIC AID PROGRAM

Mr. CONTE. In regard to the Vietnamization program in Vietnam, this will involve transfer of a great deal of the burden of fighting to the South Vietnamese. It would seem to me that our military assistance program is going to play an every-increasing role as our ground troops are pulled out. Would it be reasonable for this committee to exepect big hikes in the budget requested for military assistance? At this time I realize this budget is in Defense.

Secretary LAIRD. It is in the Defense budget at the present time. Most of the military assistance costs will be provided for in the Department of Defense program. There will, however, be increasing costs related to Vietnamization in the economic aid portion of the foreign assistance bill. I would point out that economic assistance to Korea in the first 3 years after we made a major reduction of our forces in Korea, in terms of today's dollar, amounted to over $1 billion in each of the years 1953, 1954, and 1955.

As far as the military assistance portions of the Vietnamization program are concerned, most of them will be funded through the Department of Defense Appropriation Act; but there will be additional economic assistance costs. Many people do not realize the significance of that program as we reduce the American presence in Vietnam. At the present time, over half the gross national product of Vietnam is U.S. contributions. As we phase down our military presence in Vietnam, going from over 540,000 troops down to 434,000—the authorized strength for the 15th of April—and as we bring many more thousands of troops out of Vietnam, I do not want to mislead this committee about the tremendous impact this will have on the economic assistance program.

Mr. CONTE. I will try to follow this up with Dr. Hannah.

Secretary LAIRD. This has to be faced up to. I would not be fair or candid with this committee if I did not tell you that I don't believe this prospect is being faced up to today.

Mr. CONTE. I think this is very important testimony. I wish we had it last year when we brought this bill to the floor and in conference.

I think we have to build a good record this year in this particular area. I think it is vital.

Secretary LAIRD. I agree with you.

U.S. TROOP REDUCTION IN VIETNAM

Mr. CONTE. You did mention the pullout of April 15. Will this leave 430,000 troops in Vietnam?

Secretary LAIRD. 434,000 by April 15. We will have reduced authorized strength by 115,500 since the time of the Midway conference last June.

Mr. CONTE. Do you have any further projections that you can tell us about?

Secretary LAIRD. Mr. Conte, there is one thing that I have tried to do since I have been Secretary of Defense—that is, to stay away from making forecasts or projections. We will have another troop announcement. It will be made by the President of the United States. I have always urged that we not project more than 4 to 6 months at any given time. I believe it is most important that we stay away from this forecasting as far as troop levels are concerned. I have been reluctant to talk about so many people home by Chiristmas or so many people home by such and such time. I feel that the credibility of the Department of Defense has been seriously jeopardized by that kind of optimistic forecast in the past. I just don't want to make any troop projections.

I can assure you that the Vietnamization program is moving on schedule or ahead of schedule in all the military aspects. We will be able to make further substantial reductions in American troops.

Mr. CONTE. You were there recently. Are you satisfied with the Vietnamization of the war?

Secretary LAIRD. I am satisfied with the——

Mr. CONTE. With the progress?

Secretary LAIRD (continuing) ——— progress as far as the military aspects are concerned. I do believe that further work needs to be done on the economic aspects of Vietnamization. I am doing what I can to see that these problems in the economic area, as well as in certain other areas, are faced up to.

REDUCTION IN OVERSEAS BASES

Mr. CONTE. Last year I asked you about the reduction of U.S. bases overseas. You said then you were in the process of "a very thorough review" and you felt "there could be some reductions as far as bases are concerned."

There has been some cutback on domestic bases. Did you finish this review?

Secretary LAIRD. Yes; we have been making reductions. At that particular time, we were studying the cutback in Thailand. It might be interesting to note that we have already announced a 6,000 cutback in Thailand. This is in addition to the troops that we are taking out of Vietnam. We have made other substantial reductions. If you would like a list of the reductions by jobs, and by civilian and military personnel, we would be glad to supply that to the committee.

Mr. CONTE. All right.

(The information follows:)

REDUCTION OF DEPARTMENT OF DEFENSE PERSONNEL POSITIONS RESULTING FROM SIGNIFICANT INSTALLATION AND ACTIVITY CONSOLIDATION, REALINEMENT, REDUCTION, AND CLOSURE ACTIONS IN FOREIGN COUNTRIES INITIATED FOR ECONOMIC REASONS SINCE JANUARY 1969

[All actions are known locally]

Country	Approximate number of personnel positions reduced		
	Civilian	Military	Total
Bermuda			
Canada	636	815	1,451
Cuba	36	439	475
El Salvador	22	114	136
Germany	761	1,877	2,638
Iceland		13	13
Japan	6,276	1,042	7,318
Korea	1,030		1,030
Okinawa	1,672	1,824	3,496
Philippine Islands	1,527	1,750	3,277
Spain			
Turkey	31	402	433
United Kingdom	259	1,461	1,720
Total	14,154	11,281	25,435

Note 1: Information excludes the removal of the U.S. forces from Peshawar Air Station, Pakistan, and Wheelus Air Base Libya.

Note 2: Some position reductions included above are applicable to the President's OPRED plan.

WHEELUS AIR FORCE BASE

Mr. CONTE. Speaking of bases, this committee has handled the budget for Wheelus Air Force Base in Libya for a long time. Nearly $14 million was appropriated and most of it came in the last 10 years. I always felt this base was a vital link in our overall defense posture. If that is the case, maybe you disagree with me, would you not agree that our departure from there will have a detrimental effect on our defense capabilities in the Middle East?

Secretary LAIRD. ———.

This final decision has not been made as yet, but I would certainly have to agree with the statement made by the gentleman from Massachusetts. There is no alternative for us to follow other than to move out in accordance with the agreement we have now reached which calls for a June 30 redeployment from Libya.

Mr. CONTE. In Okinawa, you mentioned that we are going to leave nothing behind. Will this same policy hold true in Libya?

Secretary LAIRD. Yes. We are moving everything that we possibly can out of Libya. Negotiations are currently going on with respect to some of the items that the Libyan Government wishes to purchase from the United States. The final arrangements are not yet worked out. We are taking everything that we possibly can out of Libya at the present time. I think we have moved most of the ammunition by now. General Wheeler may want to comment on that.

General WHEELER. Colonel James, who has been the Air Force Commander over there, told me that he had moved out practically all of his ammunition. ——— I think he has done a remarkable job, myself, in how he has accomplished this.

Secretary LAIRD. It might be of interest to this committee to know that Colonel James, our base commander in Libya, has just been pro-

moted to brigadier general. He will now become the Deputy Assistant Secretary for Defense for Public Affairs. He is the only black general on the 1970 brigadier generals' list. He is an outstanding Air Force officer and we are going to welcome him in the Department of Defense within the next 60 days.

Mr. CONTE. That is wonderful news. I have read about him and he sure is a great soldier and will be an outstanding general.

CONSEQUENCES OF BRITISH DEPARTURE FROM PERSIAN GULF

In conjunction with Libya, the other thing that disturbs me is Great Britain's pullout in the Persian Gulf and in Aden. This leaves a big vacuum there. What will our role be there with the British pullout?

Secretary LAIRD. I didn't get the last part.

Mr. CONTE. What will we do or what will our role be in the Persian Gulf?

Secretary LAIRD. This presents a difficult problem for the United States. Of course, we are concerned about the change in the British policy in that area. ———.

General WHEELER. There is one interesting aspect, if I might intervene. ———.

Secretary LAIRD. There is no question in my mind, Mr. Conte, that the British are firm in their resolve to make this change. I don't believe there is any possibility that the British position will change as far as the Persian Gulf is concerned.

Mr COHELAN. If the gentleman would yield, they simply can't afford it in view of their national situation. Isn't that true?

Secretary LAIRD. I don't know whether it is quite that simple.

Mr. COHELAN. Isn't that what Denis Healey has been saying for a long time?

Secretary LAIRD. ———.

Mr. COHELAN. You would say that proportionately?

Secretary LAIRD. ———.

Mr. COHELAN. Certainly they are interested in preserving the integrity of the free world. What justification could they provide?

Secretary LAIRD. ———.

Thus far, however, I have not seen any significant move in that direction.

Mr. COHELAN. Thank you.

Mr. CONTE. I might point out, Mr. Secretary, that last year when Mr. Sisco, Assistant Secretary of State for the Near East and South Asian Affairs, came before our committee, on page 860 of the hearings he said: "There are also uncertainties connected with the future of the Persian Gulf, particularly as the United Kingdom prepares to withdraw its military forces from the gulf by the end of 1971."

I quote: "We have no desire and intent to replace the British, although we will retain an active interest in this important region. We believe that the nations bordering on the gulf should work together to assure its progress and stability and solve outstanding disputes between them."

Secretary LAIRD. We have been trying to encourage Iran ——

Mr. CONTE. And Saudi Arabia?

AIRCRAFT SALES COMPETITION IN THE MIDDLE EAST

Secretary LAIRD (continuing) ——— and others to face up to this problem. We have certainly indicated our desire to help them help themselves. There is one thing that we need, however, in that connection as far as Iran and Saudi Arabia are concerned. That is Foreign Military Sales legislation to cover fiscal years 1970 and 1971. This is most important because we can sell under the Sales Act to both of these countries, provided that the legislation is extended.

CREDIT SALES TO IRAN AND SAUDI ARABIA

As far as Iran is concerned, we estimated ——— for credit sales in both fiscal 1970 and 1971. For Saudi Arabia, we estimated ——— in fiscal year 1970 and ——— in fiscal 1971. We need this legislation before we can move forward on these credit sales.

If we are going to meet the problem that exists in the Persian Gulf, it is important that these sales authorizations go forward.

Mr. CONTE. In other words, it is essential that this bill be enacted?

Secretary LAIRD. There is real competition in this business, as you know. The Russians are selling earlier version MIG's at a cost of about $950,000. The French are offering very fine deals on the Mirage at about $1,250,000 or $1,300,000. The particular aircraft we have available are much more costly.

Take the F–5's which we have sold. It is a good ground-support aircraft, but it does not have the fighter capability of the MIG–21 or of the Mirage, in air-to-air combat and air defense activity. This is a problem. I would like to emphasize the need for the Military Sales Act.

Mr. CONTE. This new plane that you spoke about to the chairman would be the plane to fill a void in many of these countries.

INTERNATIONAL FIGHTER AIRCRAFT

Secretary LAIRD. That plane might have capability in this area, but I don't want to make any big predictions. We are expecting to receive proposals in April and to have them analyzed in May. This plane will be much cheaper. The F–4, as you know, runs about ——— for the versions we are selling to the Israeli Government at the present time. That does not include the spare parts and so forth; it is the flyaway cost of the aircraft. We estimate that the cost of the international fighter aircraft, which the Congress has directed the Department of Defense to go forward with and which we are moving on, will be about $2.2 million. It will be superior to, and will have an air-to-air capability, which the F–5 does not presently possess.

ALLIED SUPPORT OF U.S. EFFORTS

Mr. CONTE. Last year it was reported that the price tag for Thai support in Vietnam was $1 billion over a 5-year period. The impression created by such reports, of course, is that the United States must "buy" its allies rather than voluntarily receive their support. Would you not agree that this paints a rather unfavorable picture of our efforts in Vietnam?

Secretary LAIRD. Yes, such erroneous stories do create an unfavorable impression. The amount involved, of course is far less than $1 billion.

As to whether or not we should have such arrangements, I'd like to repeat what President Nixon said last December on nationwide television.

* * * Yes, the United States is subsidizing the Thai troops. We also are subsidizing the South Korean troops. We are doing exactly what we did in Western Europe immediately after World War II when we subsidized virtually all of Western Europe due to the fact they could not maintain forces themselves for their own defense.

These are newly developing countries. They are unable to maintain their forces for their own defense. Therefore, we think that subsidy is correct. I can only say this, it seems to me it makes a great deal of sense. The Thais are in Vietnam as volunteers, and if they are willing to go there as volunteers, I would much rather pay out some money to have them there than to have American men fighting there in their place.

"KOREANIZATION"

Mr. CONTE. Mr. Secretary, some 20 years after the Korean War, we still have a good number of troops there. Are there any plans at this time to, shall we say, "Koreanize" the situation?

Secretary LAIRD. ———.

FRENCH SALE OF JETS TO LIBYA

Mr. CONTE. The French proposal to sell more than 100 jets to Libya would seem to have a nunsettling effect upon the balance of arms in the increasingly explosive Middle East. Would you not agree?

Secretary LAIRD. Probably not as much as we had originally expected. As I understand it, the aircraft will not be delivered for many months, and some not for years. It may be that by that time some kind of settlement would have been reached between Israel and the Arab countries. Also, of course, it must be remembered that the airplanes are being sold with the understanding that they are not to be used except by the Libyan Air Force for defense of Libya—that is, they are not to be used along the Canal or against Israel. It is, of course, possible that this understanding will be violated, but the Government of France feels confident that it will not be. Further, in case of such a violation, we would expect that France would cut off spare parts and other support which would quickly lessen the value of the airplanes. Finally, these airplanes, like those already present in Arab inventories, are only as good as the pilots who fly them, and already there are far more airplanes than pilots in Egypt and the other radical Arab countries. Thus, the delivery of these airplanes should not affect the limiting factor of the Arab Air Force which has inadequate trained manpower to maintain and operate them. For all of these reasons, therefore, I believe the impact will not be nearly as unsettling as has been speculated.

REPEAL OF COLD WAR RESOLUTIONS

Mr. CONTE. Mr. Secretary, as a former and most distinguished member of this body, I imagine you share our concern over restoring congressional power over military commitments. In this regard, Senator Charles Mathias of Maryland has introduced a resolution which, among other things, calls for the repeal of four cold war resolutions. These are the Formosa resolutions of 1955; the Lebanon resolution of 1957; the Cuba resolution of 1962; and the Tonkin Gulf resolution.

Would this not be a reasonable proposal for the restoration of congressional authority?

Secretary LAIRD. The administration's position on Joint Resolution 166 is being prepared in the Department of State in the form of a letter to the chairman of the Senate Committee on Foreign Relations and should be ready very soon. I will send the statement to this committee as soon as possible after it is ready. (The statement is attached.)

DEPARTMENT OF STATE
Washington, D.C., March 12, 1970.

Hon. J. WILLIAM FULBRIGHT,
Chairman, Committee on Foreign Relations,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In accordance with your letter of December 11, 1969, the Department of State has carefully reviewed Senate Joint Resolution 166 and is pleased to comment upon it.

Section 1 of Senate Joint Resolution 166 would repeal the Formosa Resolution (69 Stat. 7), the resolution on the Middle East (71 Stat. 5), the Cuba resolution (65 Stat. 697), and the Tonkin Gulf resolution (78 Stat. 384). Section 2 would establish a joint committee of the Congress to study termination of the national emergency proclaimed by the President on December 16, 1950. Sections 3, 4, and 5 would express the sense of the Congress on certain matters relating to Vietnam and reconstruction of war-ravaged areas in Southeast Asia.

For reasons discussed in detail below, the Department believes that repeal of the resolutions specified in section 1 is a matter within the discretion of the Congress. We neither advocate nor oppose Congressional action. Similarly, the Department has no objection to a study of the consequences of terminating the 1950 proclamation of a state of national emergency, although we consider it would be unwise for the proposed joint committee to work with a pre-ordained position. Finally, while the Department agrees with certain of the principles stated in sections 3, 4, and 5 and considers that they reflect a sound view of Vietnam policy and reconstruction in Southeast Asia, we believe that other parts of those sections would have unfortunate implications.

SECTION 1—THE CONTINUING SIGNIFICANCE OF THE JOINT RESOLUTIONS

Each of the resolutions specified in section 1 was passed in response to a crisis situation in the affected area. Thus, the Formosa Straits resolution dealt with a direct military threat against the offshore islands; the Mideast resolution arose from the threat of Soviet expansionism in the area and the situation following the 1956 Suez/Sinai war; the Cuba resolution was passed in the context of adventuristic Soviet military policies directly threatening our security; and the Tonkin Gulf resolution responded to an assault upon our naval forces in international waters.

In these moments of crisis, the use of these resolutions as a highly visible means of executive-legislative consultation was instrumental in demonstrating unified support for our policies to the world and the American public and in indicating congressional approval for the possible employment of U.S. military forces in support of those policies.

The crisis circumstances giving rise to these resolutions have long since passed. As indicated by the specific analyses below, the administration is not depending on any of these resolutions as legal or constitutional authority for its present conduct of foreign relations, or its contingency plans.

Equally important, the administration does not consider the continued existence of these resolutions as evidence of congressional authorization for or acquiescence in any new military efforts or as a substitute for the policy of appropriate and timely congressional consultation to which the administration is firmly committed.

Should a situation arise calling into play our treaty commitments or otherwise seriously and immediately affecting vital U.S. interests in the areas affected by these resolutions, we would wish to see Congress at that time fulfill its proper role under the Constitution in the decisionmaking process. We would keep the appropriate committees and the congressional leadership fully informed and would cooperate to the maximum in Congress' fulfillment of its responsibilities. Should circumstances warrant, and after consultation with appropriate

committees and the congressional leadership, we might indeed seek further resolutions in fresh crises.

In short, as a functional matter, these resolutions have no continuing significance in the foreign policy formulation process, and it is for Congress to determine whether they should be terminated or simply allowed to fade away.

At the same time, the Department would call to the committee's attention that these resolutions contain significant reciticals of basic principles of our policies in the affected areas. Repeal of these resolutions would raise questions about current U.S. policy in the areas concerned and thus inevitably would entail certain adverse political consequences abroad. On the other hand, we believe the administration has stated its policy clearly with respect to the questions dealt with by those resolutions. As the President made clear in his recent State of the Union message and on numerous prior occasions, the U.S. intends to keep its defense commitments. Thus, to foreclose any possible misunderstanding, we analyze below the current legal significance of the resolutions involved in section 1 and we restate the relation between the policy principles stated in those resolutions and the policies of this administration as spelled out by the President and the Secretary of State.

THE CUBAN RESOLUTION

The Cuban resolution of October 3, 1962, was above all a statement of U.S. policy toward Cuba. It was not intended to add to the President's powers or authorize any particular action he might take in the future. Consequently, we do not consider that the Cuban resolution in any way affects the powers of the executive and legislative branches. It has never been relied upon by the executive as the legal basis for any action. President Kennedy's 1962 order for the interdiction of the delivery of offensive missiles to Cuba cited as authority only the Constitution and statutes of the United States, while adding that the President was acting "in accordance" with the Cuban resolution as well as the resolutions of the Organization of American States on the subject.

The Cuban resolution does, however, reflect U.S. policy toward Cuba. That policy conforms to the hemisphere-wide policy adopted by the Organization of American States. It expresses the U.S. determination to prevent the Castro regime from extending its aggressive or subversive activities to any part of the Western Hemisphere. It states that the United States is determined to prevent in Cuba the creation or use of an externally supported military capability endangering the security of the United States. Finally, it expresses U.S. determination to work in support of self-determination for the Cuban people. This policy remains the policy of this administration. We believe the success of this policy will be enhanced by the success of the broad program of action for progress for the Americas, which the President set forth in his address before the Inter-American Press Association on October 31, 1969. In that address the President also said:

> "I would stress one other point. We cannot have a peaceful community of nations if one nation sponsors armed subversion in another's territory.
>
> "The Ninth Meeting of American Foreign Ministers clearly enunciated this principle. The export of revolution is an intervention which our system cannot condone, and a nation like Cuba which seeks to practice it can hardly expect to share in the benefits of this community."

THE FORMOSA RESOLUTION

The Formula resolution of January 29, 1955, expressed congressional approval for the President "to employ the Armed Forces of the United States as he determines necessary for the specific purpose of securing and protecting Formosa and the Pescadores against armed attack, this authority to include the securing and protection of such related positions and territories of that area now in friendly hands and the taking of such other measures as he judges to be required or appropriate in assuring the defense of Formosa and the Pescadores."

This resolution is now 15 years old. In the event of a new crisis in the Formosa Strait, this administration would not view the continued existence of the Formosa resolution as a source of congressional authority.

Our defense commitment to the Republic of China is clearly set forth in our Mutual Defense Treaty, which entered into force several months after the resolution was adopted. Repeal of the resolution would not affect our commitment to the defense of the treaty area or our ability to meet it.

THE MIDDLE EAST RESOLUTION

Much of the Middle East Resolution of March 9, 1957, is no longer relevant. That portion of section 2 of the resolution giving congressional approval for the President to undertake military assistance programs has now been overtaken by the Foreign Assistance Act. Similarly, section 3 of the resolution, authorizing the President to expend funds during fiscal year 1957 is no longer relevant. Section 4, authorizing the President to furnish assistance to the United Nations Emergency Force, has no current applicability since UNEF no longer exists.

The resolution's statement, in section 2, that "the United States is prepared to use armed forces to assist any nation or group of such nations requesting assistance against armed aggression from any country controlled by international communism" plays a role in U.S. bilateral agreements with Iran, Pakistan and Turkey. Article 1 of those agreements, which is common to all three of them, says that "in cases of aggression against (Iran/Pakistan/Turkey), the Government of the United States of America, in accordance with the Constitution of the United States of America, will take such appropriate action, including the use of armed forces, as may be mutually agreed upon and as is envisaged in the joint resolution to promote peace and stability in the Middle East, in order to assist the Government of (Iran/Pakistan/Turkey) at its request." Repeal of the resolution would in no way affect the continuing validity of these bilateral agreements. On the other hand, if the resolution is not repealed, the administration would not construe it as a source of authority for any decisions which might involve the United States in a conflict in that area.

Perhaps the most important statement of the Middle East resolution is the sentence in section 2 which states that ". . . the United States regards as vital to the national interest and world peace the preservation of the independence and integrity of the nations of the Middle East." The policy expressed by this statement has continued, throughout the years, to be the cornerstone of U.S. policy in the Middle East. It remains the policy of this administration. Repeal of the Middle East resolution would not affect our continued commitment to the preservation of independence and integrity of the nations in that area.

THE TONKIN GULF RESOLUTION

As noted above, this administration has not relied on or referred to the Tonkin Gulf resolution of August 10, 1964, as support for its Vietnam policy.

Repeal at this time, however, may well create the wrong impression abroad about U.S. policy.

The President has made our policy on Vietnam clear on numerous occasions. We seek a negotiated settlement and are proceeding with efforts to bring the war to an end even if such negotiated settlement proves unobtainable. The Congress could, of course, draft and adopt a new resolution to complement and support that policy.

TERMINATION OF THE NATIONAL EMERGENCY—SECTION 2

Section 2 of Senate Joint Resolution 166 would establish a "Joint Committee on the Termination of the National Emergency." The Department has no objection to the creation of such a study committee and would be pleased to cooperate in any way possible with the committee's work. However, we should like to suggest that if such a study is to be undertaken its conclusions ought not be prejudged either by the title of the committee or by its terms of refenrence.

The first specific function of the committee would be to "consult and confer with the President and his advisers regarding the most effective method of terminating such national emergency;" this language assumes that the national emergency should be terminated and that the only question is how. In fact, the proclamation of 1950 makes operative some 170 statutes that provide a set of authority the continuation of which is important under present world conditions. If the national emergency were to be terminated we believe that substantially similar authority would have to be provided in its stead. Thus, the first question which the committee might study is not how the national emergency should be terminated but what purposes it serves. With respect to those purposes it found to be substantial, it could then ask whether these were best provided for by continuation of the present proclamation or by some other means.

VIETNAM SETTLEMENT—SECTION 3

We welcome the expression of support in this section for the President's efforts to achieve a political solution in Vietnam. Section 3 goes on to support the President's plan for withdrawal of U.S. forces and urges the creation of an international peacekeeping force for Vietnam, a proposal that is consistent with the President's call for international supervision of a ceasefire. For the sake of accuracy section 3 might be revised to state our fundamental objective of self-determination for the South Vietnamese people and to avoid the possible implication that the continued implementation of the program of troop withdrawals will result in a situation in which the people of South Vietnam will be dependent on an outside force to assure their security or protect them for reprisals.

FORMATION OF A NEW GOVERNMENT IN SOUTH VIETNAM—SECTION 4

Section 4 of the Senate Joint Resolution 166 urges South Vietnamese leaders of "all political, religious and ethnic groups in South Vietnam to initiate serious discussions designed to lead to the creation of a government capable of gaining popular support and sustaining a durable political order after the departure of U.S. forces." It is the policy of this administration to support and encourage as broadly representative a government as possible in South Vietnam.

Unfortunately, the language of section 4 is misleading in its implication that the present Government is incapable of gaining public support and sustaining a durable political order. In addition, the language of section 4 may connote an American effort to impose a coalition government on South Vietnam. The President has indicated that he would not favor any political settlement imposed on South Vietnam from outside, the form and composition of their government being a matter for the South Vietnamese to decide.

SOUTHEAST ASIA RECONSTRUCTION—SECTION 5

The Department concurs in the aims of section 5 of the Mathias resolution; that is, multilateral cooperation in the reconstruction of the areas in Southeast Asia damaged by the war. The administration intends to submit to the Congress its recommendation for postwar reconstruction and development and to request appropriate actions for a U.S. contribution to a multilateral effort at an appropriate time.

In light of the above comments, the Department of State is prepared to cooperate fully with the Committee on Foreign Relations in examining the questions raised by the draft resolution.

Sincerely,

H.G. TORBERT, Jr.,
Acting Assistant Secretary
for Congressional Relations.

PROPOSED MODIFICATION OF CONTE AMENDMENT

Mr. CONTE. In his report titled "Quality of Life in the Americas," Gov. Nelson A. Rockefeller has called for the modification of my amendment concerning the sale of sophisticated weapons to developing nations. I introduced that amendment because I did not believe these nations should waste their money on unnecessary and expensive equipment like jet planes. I think the facts have borne me out that the developing nations do not have this money to waste. Do you not agree?

Secretary LAIRD. Certainly developing nations should not waste money on unnecessary and expensive equipment. In accordance with the Foreign Military Sales Act, all proposed U.S. sales of military equipment must meet stringent standards before they are approved. Pursuant to these standards, we review all sales on a case-by-case basis with a view to determining whether, within the particular circumstances then prevailing, the weapons system in question should be considered sophisticated, and if so, whether the waiver provision should be used.

However, it must be recognized that the leverage which the United States can exert on a government that is determined and able to buy weaponry to replace obsolescent items may be limited by the availability of alternate sources of supply. The Rockefeller report underlined this fact as well as that (1) a mature relationship with the Latin American countries entails that weight be given to the latter's own evaluation of their military as well as economic needs, and (2) recognition that defense budgets in Latin America represent a small portion of their GNP relative to other regions of the world. No one likes to see money spent on arms. Nevertheless, it is unrealistic to expect Latin American countries to, for example, phase out or disband their air forces. This is the alternative that they face, for all practical purposes, unless they buy some new aircraft in the coming years. Most of the aircraft they now have are of World War II—Korean war vintage, and large quantities predate World War II. At some point they will acquire more modern aircraft. It would be in everyone's interest that they do so with the least diversion of resources and in a way that would not stimulate an arms race, through the introduction of overly sophisticated, overly expensive aircraft.

REVIEW OF NEED FOR U.S. TROOPS IN EUROPE

Mr. CONTE. From 1968 to 1969, our balance of payments deteriorated some $7.2 billion, netting a deficit of $6.9 billion for 1969. Meanwhile, we continue after 25 years to maintain a large ground force in Western Europe, and this force no doubt contributes substantially to the payments deficit. Is it not time that we thoroughly reviewed the need for these troops in Europe?

Secretary LAIRD. Force levels for NATO are a matter of constant and continuing review. This force planning process provides the principal means for adjusting the magnitude of U.S. forces in Europe, from approximately 415,000, for example, in 1961 to our current strength of about 310,000.

However, in direct response to your question, we agree that now is the time to thoroughly review the need for U.S. troops in Europe. In his report to the Congress on February 18, 1970, the President said that, although we had announced to the NATO Council in December that we would maintain current U.S. troop levels in Europe at least through mid-1971, we recognize that we must use this time to conduct a thorough study of our strategy for the defense of Western Europe, to include full consultation with our allies.

One of the reasons that the President specified for conducting this strategic study was disagreement within the alliance about the burdens that should be borne by the several parties in providing forces and other resources. We have made clear to our allies at high levels that we expect to assume a larger share of the burden. An interdepartmental task force is now at work considering all the possible ways that the Europeans could assume a larger share of the financial burden. We believe that many of our allies appreciate the disparity of contributions to the common defense. We are hopeful that these attitudes and trends will lead to new ways of handling balance-of-payments and budget problems resulting from the stationing of U.S. troops in Europe.

I should like to emphasize the importance of full and complete consultation with our allies. As the President mentioned in his report, there should be no American attitude of "take it or leave it." ———. Because U.S. security is inseparable from European security, we must seek the views and advice of our allies on the whole range of options we have under consideration.

SALT TALKS, ABM AND MIRV

Mr. CONTE. The President spoke at length about the SALT talks in his foreign policy message. At the same time, Mr. Secretary, you have called for a step-up in the ABM program. Do you see any inconsistency between your call for more work on the ABM, continued work on MIRV, and the pursuit for meaningful arms limitations at the SALT talks?

Secretary LAIRD. Our requirements for missile defense and for multiple warheads on our ICBM's are consequences of the threat posed by the Soviet forces. That threat continues to grow, despite the initiation of arms limitation talks, as the Soviets continue deploying ICBM's and testing advanced systems, both offensive and defensive. We hope the strategic arms limitation talks with the Soviet Union will be successful but we cannot jeopardize the security of the Nation by curtailing our defense programs in anticipation of an agreement. I repeat now what I said in my report to the Congress on February 20:

An orderly, measured, flexible, but ongoing Safeguard defense program will help maintain our relative positive position in SALT and improve the chances for a successful outcome.

SOUTH KOREA RIFLE PRODUCTION FACILITY

Mr. CONTE. Let us go back to Korea. I forgot one question in regard to the rifle factory they want to build there. What has been resolved? This was about the time you were going to make a decision?

Secretary LAIRD. We are in pretty good shape as far as the rifle production facility in South Korea is concerned. I had an inquiry from Senator McClellan about this and there is some detail in the answering letter signed by Deputy Secretary of Defense David Packard. I would like to put it in the record at this point so that this committee is fully advised.

Mr. PASSMAN. It will be inserted at this point.

(The letter follows:)

THE SECRETARY OF DEFENSE
Washington, D.C., February 21, 1970.

Hon. JOHN L. MCCLELLAN,
United States Senate
Washington, D.C.

DEAR SENATOR MCCLELLAN: The following information is provided in response to your February 16 message to Secretary Laird relative to the small arms rifle production facility in South Korea.

1. PURPOSE OF THE PROJECT

It is not intended that the proposed rifle production facility in Korea be financed with military assistance (grant) appropriations. On the contrary, the cost of the proposed rifle plan will be financed entirely by the Republic of Korea Government (ROKG), with the U.S. Defense Department providing foreign military sales credit at the prevailing market rate of interest which the ROKG will repay over an 8–10 year period.

The ROKG has an urgent requirement to modernize rifles in the hands of its troops and is desirous of obtaining the capability to manufacture a U.S. designed rifle. The North Koreans currently have in operation a rifle plant that is manufacturing the AK47 Russian designed rifle. It has been recommended by the U.S. Government that the ROKG treat this requirement as a "self-help" program and undertake to finance the entire cost of this production facility, with U.S. credit support.

2. TYPE WEAPONS TO BE MANUFACTURED

The ROKG is desirous of manufacturing a modern U.S. designed rifle and to expand their existing ammunition facility to permit the manufacture of 5.56mm., ammunition. The ROKG is also interested in eventually extending the rifle production facility to allow for the manufacture of other types of small arms such as pistols and machine guns.

3. CONTRACTORS PROPOSALS SUBMITTED AND BASIS ON WHICH A SELECTION WILL BE MADE

The ROKG has expressed interest in: (a) the M–16 rifle, production rights owned by Colt Industries, Inc.; (b) the AR–18 rifle, production rights owned by Armalite Co.; (c) the Stoner weapon system, production rights owned by Cadillac Gage Co.

The ROKG has requested the U.S. Defense Department to review the above company proposals in terms of produceability, cost and operational reliability. The U.S. Army has undertaken a critical evaluation of the above rifle candidates. A summary of the U.S. Army findings will be submitted to the ROKG during the next 30–45 days. Since the ROKG will be paying for this program, the final decision relative to the selection of a rifle for production in Korea will be the responsibility of the ROKG.

Following the outcome of U.S./ROKG reviews and deliberations, I will be in a position to provide you with additional data.

Sincerely,

DAVID PACKARD, *Deputy.*

Secretary LAIRD. It is not made as of this afternoon.

Mr. CONTE. Thank you.

Mr. PASSMAN. Thank you, Mr. Conte.

Secretary LAIRD. I don't want to leave the gentleman from Massachusetts in doubt. We are almost ready to make that decision. I don't believe that he needs to be concerned about this type of rifle.

Mr. PASSMAN. Mr. Secretary and General Wheeler, I have asked all of my questions on your general statements. General Warren is going to have to administer the program and I think that the balance of my questions can be directed to the general.

Secretary LAIRD. He is an excellent administrator of this program, Mr. Chairman.

Mr. PASSMAN. Inasmuch as you can only spend another 40 minutes with us, I yield to Mr. Rooney.

Mr. ROONEY. I have no questions. Thank you.

Mr. PASSMAN. Mr. Cohelan?

Mr. COHELAN. Thank you, Mr. Chairman.

PROPOSAL TO INCLUDE MAP IN DEFENSE BUDGET

Mr. Secretary, you testified in the Defense report that you felt that the military assistance program should be in the Defense budget. I should like to commend you for that expression of that sentiment. I hope that you take full advantage of the Peterson Commission report recommendations which corresponded to your recommendations. I feel very strongly. I feel as the chairman does, that this is a very bad pro-

cedure, no matter what we think, whether we agree or disagree with this or that item. I do think it is part of the overall Defense problem and I think this is properly your bailiwick.

Having said that, are you going to take some measures to try to do that, or are you going to blame it on us?

Secretary LAIRD. I don't want to fix responsibility for this anyplace other than where it should be; that is, on the Congress. The decision as to how this legislation is considered has to be made by the Congress.

Mr. COHELAN. You are a very persuasive person and always have been, Mr. Secretary. Do you mean to tell me that you are not going to make your case vigorously?

Secretary LAIRD. If I am asked for a recommendation as to how to keep the Military Assistance Program at a lower profile in order to make it a more effective instrument of our national security, I would say that it is better to carry it in the Defense Appropriation Act. We are already funding $2.5 billion in the military assistance area under Defense Appropriation Act.

I do not want to get into this jurisdictional dispute, however, between the legislative committees of the Congress. I would hope that this would be a matter that the Congress would face up to, and that it would support the preference I have expressed. This is a jurisdictional question. It is just like the matter of the new international fighter. The Congress has the responsibility. They have decided that they want us to go forward with such a program. Yet we have a jurisdictional dispute existing between the two committees. This is a question that I cannot solve as Secretary of Defense, but one that you can solve through the excellent leadership you can exert in connection with consideration of this question in the House of Representatives.

Mr. COHELAN. May I say to the distinguished Secretary, I hope that you will vigorously push it.

CLASSIFIED COUNTRIES PROGRAMS

Tell me, Mr. Secretary, what is all of this about ——— and ———? This is classified? What are we doing there?

Secretary LAIRD. It is a very small training program. I can give you the details of the program for ———. The last assistance program for ——— was negotiated in 1962 to cover the period fiscal year 1962 to 1968. At present, the only materiel assistance going forward is in the form of deliveries against undelivered but funded balances of that program. ———. They are so-called because the assistance to ——— is treated as sales. The size of this mission is being examined. It is a very small team. Aside from training, military assistance to ——— consists merely of the delivery of balances from prior year programs.

The total amount funded in this bill is ——— for training only.

Mr. COHELAN. Do we have a mission in ———?

Secretary LAIRD. We have the ——— which is a very small group. How many, General?

It is made up of ——— local-hire civilians and ——— U.S. military.

Mr. COHELAN. Do we have diplomatic relations with ———?

Secretary LAIRD. Yes.

Mr. COHELAN. Do we have an embassy there?

Secretary LAIRD. We have full diplomatic relations.
Mr. COHELAN. This is in addition to everything else?
Secretary LAIRD. Yes, sir.
Mr. COHELAN. How about ———?
Secretary LAIRD. ———. We have a very small training program for ———. The military attaché runs the entire program for ———.
Mr. COHELAN. What generated this requirement? This is the first time they have appeared in this justification.
Secretary LAIRD. ——— has been in the program before. The total amount of the program run by the military attaché was ——— in fiscal year 1970.
Mr. COHELAN. For what purpose? Training?
Secretary LAIRD. Training.
Mr. COHELAN. How did we get involved?
Secretary LAIRD. We and the ——— believe it is to their advantage as well as ours to maintain some low-key link with the United States. What it amounts to is really a kind of orientation program. I think there were some benefits in having a pretty good attaché in ———. This is not a high-visibility program. It was only $3,000 in fiscal year 1970.
General WHEELER. ———.
Mr. COHELAN. Isn't there a strong pro-Red element there?
General WHEELER. ———.
Mr. COHELAN. ———.
General WHELER. ———.
Mr. COHELAN. That is very encouraging.

LAOTIAN TROOPS AND MEO TRIBESMEN

Mr. Secretary, I don't want to repeat a lot of questions that were asked you by Mr. Conte and others, but can you tell me how our commitment in Laos—or how many? I would like to get some notion of how many Laotian troops are fighting in Laos.
Secretary LAIRD. How many Royal Laotian?
Mr. COHELAN. Yes.
Secretary LAIRD. As compared with Meo tribesmen?
Mr. COHELAN. Yes. The Meos are part of that army, are they not?
Secretary LAIRD. They are a separate part of that army. They are treated as a separate group.
Mr. COHELAN. What are the figures for both of them?
Secretary LAIRD. I think General Wheeler has that.
The Meo tribesmen number about——
General WHEELER. ———.
Secretary LAIRD. Off the record.
(Discussion off the record)
Mr. COHELAN. On or off the record, Mr. Secretary, or General, what about this charge that we are chewing them up; that is to say, in the process of military operations the Moes are being decimated?
Secretary LAIRD. I think there is no question but what most of the casualties have been among the Meo tribesmen. They have taken the brunt of all of the fighting, certainly in the last 6 years. They have done almost all the fighting.

Mr. COHELAN. Where are all the Royal Laotian troops?
General WHEELER. ———.
Secretary LAIRD. ———.
General WHEELER. ———. What was really happening here was they withdrew under pressure to preserve forces.

U.S. ROLE AND CASUALTIES IN LAOS

Mr. COHELAN. You have already indicated the number of Americans involved in advisory or whatever capacity.
Secretary LAIRD. They are involved in an assistance role. The reason for that——
Mr. COHELAN. Some of them are getting killed?
Secretary LAIRD. ———.
Mr. COHELAN. I understand that. What I am trying to get at is how many of our guys are dying over there? Again, as I indicated before, many of us have been over that ground pretty thoroughly. Tiger Teague's kid was out there as a forward observer. I was there the day an air force colonel was killed. What is going on?
Secretary LAIRD. What day?
Mr. COHELAN. Our men.
Secretary LAIRD. Since I have been Secretary of Defense—and I have checked through these records as best I could—there has been one military assistant killed in Laos. He was engaged in giving assistance to the Laotian forces. We have lost airmen over the Ho Chi Minh Trail and in that area. The North Vietnamese are firing SAM missiles at us and our aircraft. We are bound to lose, and have lost, some airmen in interdicting supplies coming to South Vietnam. We lost a helicopter over there the other day on a mission to rescue a downed aircraft. We have lost air combat pilots. As far as military assistants are concerned, since I have been Secretary of Defense—and I have run this thing through the best I could—I could hardly believe it was only one, but to the best of my knowledge at the present time, it is.
Mr. COHELAN. In spite of the fact that we have had ———.
Secretary LAIRD. Yes, sir.
Mr. COHELAN. Mr. Secretary, can I safely say that the figure that you gave us today about our military men in Laos is the correct figure?
Secretary LAIRD. That is correct. It can vary by as much as 10. I gave you a figure of about ———. That figure varies because people go in and out.
Mr. COHELAN. To the best of your knowledge, do we have any private commitments to Prince Souvanah Phouma?
Secretary LAIRD. No.

CHINESE AIR DEFENSE REQUIREMENTS

Mr. COHELAN. I was not here when Mr. Conte and others were interrogating you. Did you develop, Mr. Secretary, the idea of the requirement for Taiwan?
Mr. PASSMAN. I asked questions on that in great detail. I received very direct answers. I think the Secretary made a very excellent case as to the need.
Mr. COHELAN. What are you going to provide?

Mr. PASSMAN. The Secretary did give us, I think, the figures.

Mrs. HANSEN. Give us a capsule summary of his reply.

Secretary LAIRD. I went into——

Mr. PASSMAN. You might answer that question now that I submitted to you in an effort to save time.

Mr. COHELAN. Are you going to supply air defense aircraft?

Secretary LAIRD. They need air defense aircraft.

Mr. COHELAN. You are not going to give them TAC capability aircraft, or are you?

Secretary LAIRD. They already have some TAC capability.

Mr. COHELAN. That we provided?

Secretary LAIRD. Their need is primarily for air defense.

Mr. PASSMAN. Would the gentleman yield?

Secretary LAIRD. I want to make sure you understand that the F–100, which is a fairly old aircraft in terms of capabilities, does have an attack capability.

Mr. PASSMAN. Would you yield for a question at this point?

General Wheeler, I believe you stated in the colloquy with Mr. Conte that the greatest threat to the Republic of China is ———. Is that correct?

General WHEELER. That is correct.

Mr. PASSMAN. If that is the greatest threat, ———. Is that correct?

General WHEELER. That is correct.

Mr. PASSMAN. I believe you answered, Mr. Secretary, that at some subsequent date, if and when the funds are available, and inasmuch as we have a $3 billion military assistance investment in Taiwan, your plans would be to update the armed forces of China and the Defense Department making the decision as to what they needed. Is that correct?

Secretary LAIRD. That is correct. I don't want to give the impression we are not trying to do something about this right now. This last year, under the prodding of this committee and by the Congress, we did move forward to strengthen the ———. I don't want the record to imply that we don't recognize this problem and are not trying to face up to it and help our friends.

Mr. PASSMAN. Mr. Secretary, earlier I was trying to develop the record as to China's needs. That is the exact thing you are trying to do.

Earlier you had indicated the great need and that China was as important to us now as ever before. I think we agreed that the Defense Department should make up its mind from statistics and facts not in possession of this committee as to the type of equipment China needs and this decision could not be made by this committee?

General WHEELER. That is correct.

Mr. PASSMAN. Thank you. I wanted to speak for myself on this issue.

Mr. COHELAN. Thank you.

U.S. INTERESTS AND PRESENCE IN TAIWAN

Mr. Secretary, I want to ask you a deliberately loaded question. Are the funds used in MAP and foreign military sales to Nationalist China more a payoff for base rights and overflight rights rather than any increased defense capability for Nationalist China?

Secretary LAIRD. No, sir; I would say credit sales are a substitute for decreased grant aid to China. China has served a very vital role in our total defense program. A tremendous investment has been made by the United States over the past decade, but I believe that it is fair to characterize credit sales to China as a substitute for grant aid.

Mr. COHELAN. What about military manpowers; do we require military manpower in the strength that we have now? Isn't it in the order of 11,000?

Secretary LAIRD. The total military presence in Taiwan is being reduced somewhat. As a matter of fact, we are making reductions throughout the world, not only in civilians working for the Department of Defense, but also in the military. When you were gone, I pointed out that not only will we have reduced our presence in Vietnam by 115,500 by the 15th of April, but we have also announced a reduction in the military presence in Taiwan and other reductions all over the world.

Mr. COHELAN. For which I heartily commend you.

Does that include Taiwan?

Secretary LAIRD. Yes; a reduction will be made in Taiwan. I have just the MAAG figures. I will supply all of them for the record.

Mr. COHELAN. Do the record.

Secreary LAIRD. We have reduced the total MAAG strength there from 707 total U.S. personnel to 338. Total U.S. military personnel ashore numbered 9,243 as of September 30, 1969.

Mr. COHELAN. Does that include dependents?

Secretary LAIRD. No, that is just military personnel.

Mr. COHELAN. We would have a larger presence there with dependents?

Secretary LAIRD. With dependents, the figure is larger. The projection of June 30 of 1970 is——

U.S. MANPOWER REDUCTIONS IN JAPAN AND KOREA

Mr. COHELAN. On that manpower, how about Japan; does the same thing apply to Japan in terms of manpower reduction?

Secretary LAIRD. At the present time, we have in Japan about 40,000 military, 4,600 civilians, and 42,000 dependents.

Mr. COHELAN. Mr. Secretary, questioning at this time of day is most frustrating. There is so much ground to cover so I am going to cut through very quickly on two items.

One, Korea. Is it possible that we can withdraw some of our troop strength in Korea in the near future?

Secretary LAIRD. ———.

Mr. COHELAN. ———.

NEED FOR MODERNIZATION OF KOREAN FORCES

Secretary LAIRD. The only possible way we can move to reduce our presence in Korea is to support a higher funding level in Korea. This means a substantial increase in the Military Assistance Program until we get the original modernization program going.

Mr. COHELAN. I want to say for the benefit of both of you again, and I for one have been watching this for many years. I'm utterly amazed that we have not moved in this direction ——— considering the fact that we have discussed our posture there for so many years. ———.

I think the situation is pretty much the same.

Secretary LAIRD. Our difficulty is that we were cut back from $425 million to $350 million in military assistance this past year.

Mr. COHELAN. Korea is a grant-aid country and receiving assistance for a long time. We have put billions of dollars into Korea.

Secretary LAIRD. Very little has been spent on modernization of the forces. Only two of the ——— divisions they now have are up to full modernized strength. Those two divisions are serving in Vietnam.

OKINAWA NEGOTIATIONS

Mr. COHELAN. Mr. Secretary, I just want to express the hope that we can accelerate the process.

Mr. Conte asked about Okinawa and the one sensitive area that occurred to me, he was asking you questions about was the power arrangements there, and what not. Who is going to administer them?

Secretary LAIRD. Yes.

Mr. COHELAN. Is that part of the negotiations?

Secretary LAIRD. Yes, it is. We have gotten into that; and we have also gotten into the question, in our colloquy with the chairman of the committee, of the reimbursement procedures that are being worked out in connection with those facilities.

Mr. PASSMAN. I think we have an excellent record on Okinawa and Japan and the direction in which we are traveling.

Secretary LAIRD. Yes, sir.

U.S. POSTURE IN TURKEY

Mr. COHELAN. Mr. Secretary, I was in Turkey in December and had a fine opportunity to review our military posture there. I was delighted with some of the developments. I understand that we are moving out of Ankara onto the base with most of our activities. I understand that there was some special funding for that purpose, about ———. Is that correct?

General WHEELER. I think that is about right.

Mr. COHELAN. How many people do we have in Turkey at the moment?

Mrs. HANSEN. Would the gentleman yield? How about the overflights in Turkey now?

Secretary LAIRD. The position of our Government on overflights?

Mrs. HANSEN. Their government on our overflights.

Secretary LAIRD. ———.

We are cutting back on our presence in Turkey? That is the question?

Mr. COHELAN. Yes.

Secretary LAIRD. By September 30, 1969, we had gone down to 9,500 military, and 539 civilians, for a total presence just over 10,000.

Mr. COHELAN. Originally how many?

Secretary LAIRD. We originally had in the neighborhood of about 19,000. We have been bringing it down.

Mr. COHELAN. That is just military?

Secretary LAIRD. Yes, sir.

Mr. COHELAN. Correct me if I am wrong, but I understand that our principal activity there is Tuslog, communications, and air? We have no ground forces in Turkey?

Secretary LAIRD. That is correct.

Mr. COHELAN. We have reduced from 19,000 military to 10,000, which is very substantial. If you had to add dependents, we still have 18,000 there; would that be a fair estimate?

Secretary LAIRD. With dependents, it would be about correct. I think there are about 10,000 dependents making about 20,000 Americans.

Mr. COHELAN. Mr. Secretary, in the light of the fact that we have responded to some of the nationalistic tendencies of the Turks in this critical period they seem to be going through, would it not be advisable to limit our dependent activity there even further for the time being.

Secretary LAIRD. I will be glad to look into it. I think we are doing pretty well in reducing our presence there.

Mr. COHELAN. Wouldn't it be possible to put Turkey on a short tour basis?

Secretary LAIRD. I am concerned about avoiding short tours wherever we can avoid them. There is a lot of talk about how we want to work toward a zero draft level, and all the other problems confronting the Department of Defense. I will be glad to look into the idea of short tours, but I wouldn't want to make a commitment.

Mr. COHELAN. We have talked about this informally, you recall.

Secretary LAIRD. Yes.

Mr. COHELAN. You know I don't suggest this lightly. In terms of well-being, the troops are quite aware of this. There is a very delicate political situation in Turkey, as you well know. The Demerel government just resigned on the basis of the budget crisis. When one gets into the political problems of Turkey, our presence is part of that political problem. It seems to me, on the basis of my recent visit there, we would do very well to go further into low profile for at least the immediate future. I don't think this has to be a permanent condition, but I honestly believe it would be very useful in the short term.

May I say to the Secretary, I talked to many people in both our own establishment there and some of the businessmen who have been there for some time. I think this would be a possibility because it seems to me if we reduced our presence to pure military we would do away with much of the criticism that we have been getting. For example, has it come to your attention there are non-commissioned officers, in offbase quarters next to Turkish generals? In an old society this generates all kinds of bitterness.

Secretary LAIRD. We have some Air Force sergeants living next door to American generals in this country.

Mr. COHELAN. Be that as it may, I am sure that the Secretary is aware that in an older society this becomes a very delicate internal problem.

SHOWING OF FLAG BY 6TH FLEET

Finally, I want to ask your feeling about the 6th Fleet in that area. I heard a lot about it, about the 6th Fleet showing the flag. Do you think that is really necessary at a time like this?

Secretary LAIRD. Yes, I do.

Mr. COHELAN. Are you aware that many of our people there don't hold that view?

Secretary LAIRD. I am aware that there are people who——

Mr. COHELAN. I mean Embassy people.

Secretary LAIRD (continuing). Don't share our view. I think it is important to make these port visits. I do what I can to encourage them.

Mr. COHELAN. Mr. Secretary, under the circumstances there I think that you might take another look at that. In my own inquiry I found that the opinion on the subject from very informed people was very closely divided. I discussed it with businessmen in Istanbul from a very high rank and with great experience in Turkey and who speak the Turkish language fluently and who understand the social and political situation. They counseled against it. They said it was a needless exacerbation of a situation that is already bad. It plays into the hands of the anti-American forces in Turkey. Doesn't that seem to be sound advice?

Secretary LAIRD. I also discussed it with the Turkish Defense Minister and the Foreign Minister. I was not given that impression.

Mr. COHELAN. I know, but the Defense Minister and the Foreign Minister would hardly be the persons that I would rely on during the present crisis.

Secretary LAIRD. The Defense Minister is a pretty good politician. He was elected in the Ionian district. The first election was in 1953. I was there during his election campaign. I think he is a pretty good politician. He understands the feeling of his constituents in much the way you sense the feelings of your constituents in California. So I do not want to discount his advice, his counsel and his views.

Mr. COHELAN. Let me ask you this: Suppose there is a further crisis in Turkey; what are our plans?

Secretary LAIRD. For the protection of American forces?

Mr. COHELAN. Yes.

Secretary LAIRD. We will do what is necessary. It is a NATO country. We will do what is necessary to protect not only American forces but to live up to our NATO obligation. We have contingency plans which cover such situations.

Mr. COHELAN. You do have such plans?

Secretary LAIRD. Yes, sir.

Mr. COHELAN. Thank you, Mr. Chairman.

Mr. PASSMAN. Thank you very much. I want to commend my dear colleague for his interrogation.

I want to apologize, Mr. Secretary, because you are going to find some of the same questions being asked three times. It is because some of the members couldn't be here earlier due to other subcommittee meetings, constituent problems, and so on. Due to illness, Mrs. Reid is unable to be here today but she would like to insert several questions to be answered for the record.

(The questions follows:)

Mrs. REID. Mr. Secretary, Would you tell us how many of the countries to which we give military assistance can be classified by any fair minded person as democratic countries, and how many as totalitarian?

Answer. The U.S. provides military assistance to countries which, in the overall, reflect a broad range of political systems. Some, such as India, have adopted the parliamentary system which is prevalent in the Western world; others maintain monarchical or populist authoritarian systems, which are fairly common in the so-called less developed part of the world. In general, the overwhelming majority of MAP recipient countries fall within the middle range of the democratic-totalitarian spectrum. In most cases, their political systems are in a state of flux, reflecting the many problems which attend efforts to achieve political development and social modernization.

However, by a very rough count, one could classify slightly over half the 46 countries receiving some type of U.S. assistance as being "democratic" in the sense that the term is understood in this country.

Mrs. REID. In many of the countries in which we have Military Assistance Advisory Group Missions, the military has an important political role to play. What training is given our personnel so that they have a good understanding of the political dynamics in these nations, and have some deep understanding of American foreign policy objectives?

Answer. Selection and training of U.S. personnel assigned to military assistance advisory groups (MAAGs).

I. SELECTION

By DOD direction only personnel of the highest caliber will be selected for MAAG assignment. Qualifications include experience commensurate with rank and assignment, completion of required service schooling, unblemished personal and character record, and country language capability where required.

II. TRAINING

DOD directed

A. Phase I is conducted in Washington for senior officers. 5–10-day training includes orientation by Department of Defense, the Military Departments, Defense Intelligence Agency, Central Intelligence Agency, and the Department of State. It includes a 3-week National Interdepartmental Seminar for key officers.

B. Phase II is conducted by the Unified commands. MAP assigned personnel receive approximately 5 days of training oriented to their particular country of assignment. Training includes country background coverage as well as planning and programing techniques and policy pertaining to MAP program of specific country.

C. Phase III is devoted to training provided by the MAAG or Military Group in the country of assignment. An overlap of 15 days is authorized to permit the replacement to receive on the job instruction and orientation from the incumbent.

Military department preparatory training

A. The Department of Army has career Military Assistance Officer program (MAOP) for highly selected individuals for worldwide advisory functions.

B. The U.S. Air Force has a 2-week counterinsurgency course for assignees who do not attend National Interdepartmental Seminar. Also there is a 1-week course for MAP training officers and a 2-week course for MAP logistics officers.

Mrs. REID. How does the effectiveness of the Greek Armed Forces compare today to what it was at the time of the military coup?

Answer. The Greek resolve to carry out its NATO commitment has been reiterated by the current regime. Excellent morale and high standards of discipline are being maintained. Although some exceptions to the suspension policy have

been made, there are certain equipment shortages that do prevail in certain NATO committed units.

Mrs. REID. There are some people who argue that our military assistance program is out of date, that new weapons make overseas bases and land forces near the border of Russia and Red China of limited military value to U.S. security. Would you comment on this, Mr. Secretary?

Answer. The United States is not alone in the world with the U.S.S.R. and Communist China. Our security is bound up with that of the other nations of the world. President Nixon has stated that the United States will keep its treaty commitments to other countries and "provide a shield if a nuclear power threatens the freedom of a nation allied to us, or of a nation whose survival we consider vital to our security and the security of the region as a whole." Overseas requirements for U.S. bases do change as political conditions change and advancements in weaponry are made. Some reductions in our overseas base requirements can be achieved as the Nixon Doctrine is implemented, but others—to facilitate U.S. force mobility, necessary communications, and so forth—will continue to be needed. A credible collective security demands flexibility. To effectively deter and, if necessary, combat aggressions, it is in the U.S. interest that nations allied or friendly to us assume primary responsibility for providing the manpower for their own defense. This objective necessitates that the United States provide the tools of defense, in some cases for the present on a grant basis.

Mrs. REID. Would you care to comment on the actual practical effects of a cutback in the Military Assistance program?

Answer. If Congress finds it necessary to cut the proposed fiscal year 1971 program, the reduction must come from the forward defense countries. Fifty-six percent of the world-wide total obligational authority is devoted to operating and investment costs for these countries. The remaining 44 percent is comprised of training 9 percent, supply operations 16 percent, nonregional operating expenses 4 percent, and investment and operating expenses for base rights countries 8 percent, and other countries 7 percent.

Any cut would by necessity eliminate the introduction of much needed new equipment for the forward defense countries.

Mr. PASSMAN. Mr. Riegle?

Mr. RIEGLE. I want to thank the chairman for yielding. I want to echo the sentiment that Mr. Conte expressed earlier about the regard of the members of the subcommittee for you, Mr. Secretary. Certainly I consider you a good friend.

Secretary LAIRD. Thank you.

Mr. RIEGLE. The last subject we discussed in your office blew up on the pad. That is another issue.

I know your time is short and I want to leave equal time here for Mrs. Hansen so I am going to——

Mrs. HANSEN. Don't worry about me. I came in late and I will have to pay the price for holding a hearing of my own subcommittee at the same time.

REAPPRAISAL OF U.S. COMMITMENTS

Mr. RIEGLE. The first question is this: When you were here a year ago we discussed the fact that at that time there was underway, a complete reappraisal of our defense commitments around the world. Have our treaty commitments and commitments of all kinds been reassessed?

Secretary LAIRD. Out of that review has come perhaps the most comprehensive foreign policy statement made by any President in the history of our country. It was delivered to the Congress. It is a result of the review and the application of the doctrine first enunciated by the President in Guam as the basis for our new policy.

Mr. RIEGLE. Is there anything in writing or formal with respect to our specific commitments and treaty obligations in terms of up-to-date

interpretations of what they mean from the strategic point of view? Has that been done?

Secretary LAIRD. They are outlined in the four bilateral agreements and four multilateral agreements to which the United States is currently committed. If you would like, we can place them in the record.

Mr. RIEGLE. I think it would be a good idea.

Mr. PASSMAN. Fine.

(The information follows:)

PROVISIONS OF U.S. DEFENSE TREATIES RELATING TO CONSULTATION AND ACTION IN EVENT OF ARMED ATTACK

INTER-AMERICAN TREATY OF RECIPROCAL ASSISTANCE

Article 3

1. The high contracting parties agree that an armed attack by any State against an American State shall be considered as an attack against all the American States and, consequently, each one of the said contracting parties undertakes to assist in meeting the attack in the exercise of the inherent right of individual or collective self-defense recognized by Article 51 of the Charter of the United Nations.

2. On the request of the State or States directly attacked and until the decision of the organ of consultation of the inter-American system, each one of the contracting parties may determine the immediate measures which it may individually take in fulfillment of the obligation contained in the preceding paragraph and in accordance with the principle of continental solidarity. The organ of consultation shall meet without delay for the purpose of examining those measures and agreeing upon the measures of a collective character that should be taken.

Article 6

If the inviolability or the integrity of the territory of the sovereignty or political independence or any American State should be affected by an aggression which is not an armed attack or by an extra-continental or intracontinental conflict, or by any other fact, or situation that might endanger the peace of America, the organ of consultation shall meet immediately in order to agree on the measures which must be taken in case of aggression to assist the victim of the aggression or, in any case, the measures which should be taken for the common defense and for the maintenance of the peace and security of the continent.

Article 8

For the purpose of this treaty, the measures on which the organ of consultation may agree will comprise one or more of the following: recall of chiefs of diplomatic missions; breaking of diplomatic relations; breaking of consular relations; partial or complete interruption of economic relations or of rail, sea, air, postal, telegraphic, telephonic, and radiotelephone or radiotelegraphic communications; and use of armed force.

Article 9

In addition to other acts which the organ of consultation may characterize as aggression, the following shall be considered as such:

(*a*) Unprovoked armed attack by a State against the territory, the people, or the land, sea, or air forces of another State;

(*b*) Invasion, by the armed forces of a State, of the territory of an American State, through the trespassing of boundaries demarcated in accordance with a treaty, judicial decision, or arbitral award, or, in the absence of frontiers thus demarcated, invasion affecting a region which is under the effective jurisdiction of another State.

Article 20

Decisions which require the application of the measures specified in article 8 shall be binding upon all the signatory States which have ratified this treaty, with the sole exception that no State shall be required to use armed force without its consent.

NORTH ATLANTIC TREATY

Article 4

The parties will consult together whenever, in the opinion of any of them the territorial integrity, political independence or security of any of the parties is threatened.

Article 5

The parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all and consequently they agree that, if such an armed attack occurs, each of them, in exercise of the right of individual or collective self-defense recognized by article 51 of the charter of the United Nations, will assist the party or parties so attacked by taking forthwith, individually and in concert with the other parties, such action as it deems necessary, including the use of armed force, to restore and maintain the security of the North Atlantic area.

TREATY OF MUTUAL COOPERATION AND SECURITY WITH JAPAN

Article IV

The parties will consult together from time to time regarding the implementation of this treaty, and at the request of either party whenever the security of Japan or international peace and security in the Far East is threatened.

Article V

Each party recognizes that an armed attack against either party in the territories under the administration of Japan would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional provisions and processes.

SECURITY TREATY WITH AUSTRALIA AND NEW ZEALAND

Article 3

The parties will consult together whenever in the opinion of any of them the territorial integrity, political independence or security of any of the parties is threatened in the Pacific.

Article 4

Each party recognizes that an armed attack in the Pacific area on any of the parties would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional processes.

MUTUAL DEFENSE TREATY WITH REPUBLIC OF THE PHILIPPINES

Article 3

The parties, through their foreign ministers or their deputies, will consult together from time to time regarding the implementation of this treaty and whenever in the opinion of either of them the territorial integrity, political independence or security of either of the parties is threatened by external armed attack in the Pacific.

Article 4

Each party recognizes that an armed attack in the Pacific area on either of the parties would be dangerous to its own peace and safety and declares that it would act to meet the common dangers in accordance with its constitutional processes.

MUTUAL DEFENSE TREATY WITH REPUBLIC OF KOREA

Article 2

The parties will consult together whenever, in the opinion of either of them, the political independence or security of either of the parties is threatened by external armed attack. Separately and jointly, by self-help and mutual aid, the parties will maintain and develop appropriate means to deter armed attack and will take suitable measures in consultation and agreement to implement this treaty and to further its purposes.

Article 3

Each party recognizes that an armed attack in the Pacific on either of the parties in territories now under their respective administrative control, or hereafter recognized by one of the parties as lawfully brought under the administrative control of the other, would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional processes.

SOUTHEAST ASIA COLLECTIVE DEFENSE TREATY

Article 4

1. Each party recognizes that aggression by means of armed attack in the treaty area against any of the parties or against any State or territory with the parties by unanimous agreement may hereafter designate, would endanger its own peace and safety, and agrees that it will in that event act to meet the common danger in accordance with its constitutional processes. Measures taken under this paragraph shall be immediately reported to the Security Council of the United Nations.

2. If, in the opinion of any of the parties, the inviolability of the integrity of the territory or the sovereignty or political independence of any party in the treaty area or of any other State or Territory to which the provisions of paragraph 1 of this article from time to time apply is threatened in any way other than by armed attack or is affected or threatened by any fact or situation which might endanger the peace of the area, the parties shall consult immediately in order to agree on the measures which should be taken for the common defense.

3. It is understood that no action on the territory of any State designated by unanimous agreement under paragraph 1 of this article or on any territory so designated shall be taken except at the invitation or with the consent of the government concerned.

Understanding of the United States of America: The United States of America in executing the present treaty does so with the understanding that its recognition of the effect of aggression and armed attack and its agreement with reference thereto in article 4, paragraph 1, apply only to communist aggression but affirms that in the event of other aggression or armed attack it will consult under the provisions of article 4, paragraph 2.

MUTUAL DEFENSE TREATY WITH REPUBLIC OF CHINA

Article 4

The parties, through their foreign ministers or their deputies, will consult together from time to time regarding the implementation of this treaty.

Article 5

Each party recognizes that an armed attack in the West Pacific area directed against the territories of either of the parties would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional processes.

Mr. RIEGLE. Have we gone through any process of revising the nature of any of our commitments in terms of the specific understanding between ourselves and whatever the other country might be?

Secretary LAIRD. We have been reviewing the manner in which we can meet our obligations under these agreements. This is what the Nixon Doctrine is all about. The President set forth the three basic points in his remarks at Guam. We have assured a shield for those countries toward which we have obligations, plus those countries which we feel in our own interest it is necessary to provide protection, if threatened by a nuclear power. We have gone forward to change our general purpose force strategy from one that was referred to as a "2½ war" strategy to a "1½ war" strategy. That does not necessarily mean that we change our force levels because we never have had force levels or the military resources necessary to meet the strategy enunciated by the previous administration.

Mr. RIEGLE. You made that point last year. I recall that specifically.

Secretary LAIRD. Right. We are now trying to see how we can meet these obligations by supporting the countries through cost-sharing arrangements and military assistance so that, particularly in Asia, we will not have such a large ground force commitment. Rather we will be committed to providing military assistance for indigenous ground forces, and to air and sea support by our military establishment.

Mr. RIEGLE. Did you find any treaties or any agreements that might need to be revised in terms of their language or might be wise for us to think about revising. I mean changes in specific language created for conditions a few years ago that might not be required today, might not require exactly the same kind of agreement now?

Secretary LAIRD. There is only one treaty that commits the United States to military action. I believe that is the implied commitment of the NATO Treaty. The other agreements merely say that we will consider appropriate assistance under the normal constitutional process, and I believe that this distinction should be borne in mind when we look at our treaty obligations.

Mr. PASSMAN. What process?

Secretary LAIRD. Normal constitutional process of the countries involved.

Mr. PASSMAN. I like that phrase.

Mr. RIEGLE. I am pleased to hear that. I wonder if you could supply that treaty?

Secretary LAIRD. I will put the language on the distinction in the record.

(The information follows:)

SUPPLEMENTAL STATEMENT OF SECRETARY LAIRD ON THE NATURE AND SCOPE OF U.S. COMMITMENTS IN MULTILATERAL AND BILATERAL COLLECTIVE DEFENSE TREATIES

GENERAL

The United States is a party to eight multilateral and bilateral treaties currently in force for collective self-defense. These treaties, involving 43 countries, are as follows:

1947: Inter-American Treaty of Reciprocal Assistance (Rio treaty).
1949: North Atlantic Treaty (NATO).
1951: Security Treaty with Australia and New Zealand (ANZUS).
1951: Mutual Defense Treaty with Republic of the Philippines.
1953: Mutual Defense Treaty with the Republic of Korea.
1954: Southeast Asia Collective Defense Treaty (SEATO).
1954: Mutual Defense Treaty with the Republic of China.
1960: Treaty of Mutual Cooperation and Security with Japan.

All of these agreements were submitted to the Senate which gave its advice and consent to their ratification.

None of the commitments contained in these treaties requires an automatic response from the United States. In the event of an armed attack within the scope of the commitments, the United States is obligated to decide upon and take appropriate action to meet the common danger. Such action shall be taken in accordance with U.S. constitutional processes; this is stated explicitly in every agreement except the Rio treaty.

Should a situation arise calling into play these commitments, the executive would seek to assure that the Congress at that time fulfills its proper role under the Constitution in the decisionmaking process. The executive would keep the apropriate committees and congressional leadership fully informed and would cooperate to the maximum in Congress' fulfillment of its responsibilities.

THE NORTH ATLANTIC TREATY

The North Atlantic Treaty is central to the U.S. collective defense system. Article V of that treaty provides: (1) that an armed attack against one or more of the parties shall be considered an attack against them all; (2) consequently each party will assist the party or parties so attacked; (3) each party will take forthwith individual or collective action as it deems necessary, including the use of armed force, to restore and maintain the security of the North Atlantic Treaty area. Article XI of the treaty further provides that implementation shall be in accordance with the parties' respective constitutional processes.

There is nothing in the North Atlantic Treaty which could require an automatic declaration of war on the part of the United States. In the event of an armed attack against one of the parties, there is an obligation to assist, but the extent, manner, and timing are not prescribed in advance. The obligation has been described by Secretary of State Acheson, testifying at the time the North Atlantic Treaty was before the Senate, as follows:

"* * * [W]hen the attack occurs, which is an attack upon all of them by definition, each party considers what the objective under the treaty is.

"That objective is to restore, if it has been violated, and to maintain after it has been restored, the security of the North Atlantic area, and if it pledges itself to take any sort of action, including armed force, if that is necessary in its judgment—to take whatever action its judgment says is necessary to bring about that result.

"That might be a declaration of war and use of all the resources of the country. It might be something much less, depending on what happens as the result of the attack. If the attack is something which has not been deliberately planned but has flared up in some way, it might be dealt with by means not involving the use of armed force. It might be dealt with by reason, and that sort of thing.

"If, however, it were a deliberate plan, a highly mobilized attack on the whole area then I assume that the only thing that could possibly have any effect in restoring and maintaining the security would be every possible physical effort on the part of the country. So you are not automatically at war. You take whatever action you think is necessary in the circumstances."

RIO TREATY

The other multilateral treaties listed above differ textually from the North Atlantic Treaty, but the distinction is more literal than real. As an example, article III of the Rio Treaty provides that an armed attack against an American State shall be considered as an armed attack against all of the American States. However, the Rio Treaty does not contain the language of the North Atlantic Treaty that, upon the occurrence of an armed attack, each party shall forthwith individually and in concert with others take such action as it deems necessary, including the use of armed force, not only to meet the armed attack, but to restore and maintain the security of the North Atlantic Treaty area. The Rio Treaty, envisages in the usual case a collective response resulting from a decision of the Organ of Consultation of the Inter-American system. Article III makes it clear that, pending the decision of the Organ of Consultation, the individual obligation of each one of the Contracting Parties to assist in meeting the attack depends on the request of the State or States directly attacked.

OTHER COLLECTIVE DEFENSE TREATIES

The other collective defense arrangements listed above incorporate the so-called "Monroe Doctrine formula." In 1823 President Monroe warned the members of the Holy Alliance that "we should consider any attempt on any portion of the hemisphere as dangerous to our peace and safety." This formula appears in the Treaty of Mutual Cooperation and Security with Japan, the ANZUS Pact, the Mutual Defense Treaties with the Philippines, Korea and China, and the SEATO Treaty. In these treaties, the recitation that an armed attack against one of the parties would be dangerous to the "peace and safety (security)" of the others is followed by a declaration that each party "will act to meet the common danger in accordance with its constitutional processes.

With regard to the action required to implement these treaties, Secretary of State Rusk has stated:

"These treaties represent legally binding commitments to take appropriate action at the request of an ally that is the victim of aggression. These commit-

ments do not bind us to any particular course of action. Most of them state that in the event of aggression we would act to meet the common danger in accordance with our constitutional processes. How we act in fulfillment of these obligations will depend upon the facts of the situation. Some situations will require less partcipation on our part than others. What is fundamental to the fulfillment of our obligations under these agreements is that we act in good faith to fulfill their purpose. Thus, while the agreements permit great flexibility in choosing the means by which we would assist other countries in their defense, we could not expect that we would be regarded as fulfilling our obligation through the provision of minimum assistance when the survival of the country clearly necessitated greater aid."

CONCLUSION

In reality, the distinction between the obligation of the United States under the North Atlantic Treaty and the obligation under other collective treaties is more a textural than a practical matter. The Department of State has stated on several occasions that the difference is "not appreciable." The response of the United States in a situation of armed attack against any State which is a party to any of its collective defense treaties would in the final analysis depend on the nature of the attack, the defensive capacity of the State or States attacked, and oher relevant circumstances. While the language of the North Atlantic Treaty regarding the use of armed force is somewhat more specific and direct than that of the other treaties, the response of the United States in every case, regardless of the particular treaty creating the commitment, would depend upon the requirements arising from the situation.

Secretary LAIRD. NATO is in a category by itself; the language of the Rio Treaty does follow somewhat the NATO language.

LOWERING THE U.S. PROFILE

Mr. RIEGLE. I wonder if you would supply for the record, in terms of lowering our profile, essentially what has been done in that respect over the last year?

Worldwide, from a defense point of view.

Secretary LAIRD. I think we discussed that this afternoon. Perhaps the best example, and the first step, is Vietnamization. When the new administration took office, there was a program which provided for modernizing the forces in South Vietnam to meet the VC threat, but not to meet the North Vietnamese threat. The North Vietnamese threat was going to be met by negotiations, by negotiating the North Vietnamese out of Laos and out of South Vietnam. We changed that program to provide that the South Vietnamese would assume military responsibility, through the Vietnamization program, for meeting both the VC and the North Vietnamese threat. We have moved in that direction and we have already reduced the American presence in that area by over 115,500 in accordance with announcements that the President has made. We have also reduced the American presence in Thailand by some 6,000. That program has also been announced, and the reductions are currently being made.

Mr. PASSMAN. Would the gentleman yield?

This is the Nixon doctrine, isn't it?

Secretary LAIRD. It is part of the Nixon doctrine. Vietnamization is the first step. One of the first applications of the so-called Nixon doctrine.

Mr. PASSMAN. Thank you.

U.S. MILITARY MANPOWER REDUCTION

Mr. RIEGLE. Have our aggregate manpower levels in terms of combat-ready troops, including those based in the United States—has that aggregate level dropped or gone up or stayed the same since this administration took office?

Secretary LAIRD. It has gone down.

Mr. RIEGLE. By how significant a factor?

Secretary LAIRD. Over the period of 18 months, we will be reducing the U.S. military personnel level by 550,000.

Mr. RIEGLE. This is essentially a reduction in combat forces, in a sense, or combat-ready forces, rather than some other category of activity?

Secretary LAIRD. No. I wouldn't want to say that. This is across the board. It is not limited to combat forces.

General Wheeler?

General WHEELER. No. But, on the other hand, you can point out that with the withdrawal and inactivation of the Marine division, which was created for the Vietnam war, the withdrawal and deactivation of the 9th Infantry Division, and upcoming withdrawal of the First Division, which will replace the 24th Division, there are three combat divisions off the books right there.

Mr. RIEGLE. In terms of the number of American military personnel that are stationed off the American mainland somewhere around the world, has that total number gone up or down? Has that changed appreciably?

Secretary LAIRD. That has gone down considerably.

Mr. RIEGLE. In effect, the reduction you speak about has been a reduction in U.S. worldwide force deployment wherever it might be?

General WHEELER. Correct.

POSSIBLE REDUCTION OF U.S. TROOPS

Mr. RIEGLE. ———.

Secretary LAIRD. ———.

Mr. RIEGLE. I will follow your wishes with what you want to delete from the record.

Mr. PASSMAN. Will the gentleman yield so we can make the record abundantly clear?

Earlier today you proposed to furnish members classified material. I asked for only one copy so it could be kept in the safe. No part of these hearings will be given out or no leaks will be given until they are published and made public properly. I realize the importance of these executive sessions. If there is certain material that you have given to us that you think should be removed from the record, you do so. This is one committee that has been very, very careful not to get too many copies of any one document circulating. We would rather limit it to one copy and keep it under lock and key.

Secretary LAIRD. Mr. Chairman, I was referring to the fact we have some negotiations going on now, and I don't want them interferred with.

Mr. PASSMAN. You are so correct, Mr. Secretary.

Mr. RIEGLE. Off the record for a minute.

(Discussion off the record.)

TONKIN GULF RESOLUTION

Mr. RIEGLE. I am going to submit a series of questions to you. The only additional ones I want to ask now in view of the time, concern Vietnam; With respect to Vietnam do you now see any real need for the Tonkin Gulf resolutions' legislative authority?

Secretary LAIRD. I don't see what is to be gained one way or the other by action on the Tonkin Gulf resolution at this time. As far as the actual operation of the Vietnamization program and the course of action which we are pursuing in Vietnam are concerned, I personally cannot see what effect such action would have upon our program.

U.S. SUPPORT OF AN ELECTED GOVERNMENT IN SOUTH VIETNAM

Mr. RIEGLE. There is a lot of discussion as to what in effect we hope to guarantee as an outcome in Vietnam as we get further again with the Vietnamization program? As we turn over more and more responsibility, at some point when the South Vietnamese have to meet this threat it is, of course, impossible to predict with certainty how well they might do that and what the outcome might be. Is it the policy of this administration to be committed to the maintenance of the form of government that is now in place in South Vietnam? I don't mean the ideals that this government expresses but this particular type government, apart from its personalities.

Secretary LAIRD. Yes, sir, we will support the concepts of an elected government for Vietnam. We support the right of self-determination for these people. We have made it very clear that we will support the results of free and independent elections. We have indicated on several occasions that we are willing to have an international commission or coalition commission, or any other kind of meaningful and effective commission supervise the election. I believe that we should support a regularly constituted government in Vietnam—constituted by free and open elections.

I know what the criticism is. I was asked about this matter the other day before another committee. The argument is that the present government was supported by only some 37 percent of the people, and therefore should not be supported under our terms. It is true that this was the election result, but we have elected our President by minority vote; and several mayors of some of our largest cities are serving right now on the basis of about that same percentage of votes. I support those governments, too.

Mr. RIEGLE. My concern is this—that once the war has been Vietnamized and these fellows have taken over, that it might develop that they are not able to withstand the enemy or insurgent pressure. If that happened, does your answer mean that if this government were really threatened we would reintroduce American effort? This is the $64 question. Are we prepared to guarantee it to that extent?

Secretary LAIRD. We are prepared to guarantee free and open elections and the right of self-determination. We have not escalated our objective in Vietnam.

Mr. RIEGLE. What if the Vietnamized force can't provide that?

Secretary LAIRD. Personally, I believe a Vietnamized force can provide it, and I would rather talk positively about the program than

negatively. I believe that we can move in that direction through our Vietnamization program, part one of which is turning over the combat responsibility.

Part two involves turning over the support—air and logistic responsibilities in their entirety.

Part three is reduction of U.S. participation to the level of a military mission.

I am also hopeful that we can have success in the negotiations. This avenue should always remain open, and we should always push for the negotiated route. A negotiated peace is one of our primary objectives in the Nixon administration. In the event negotiations do not succeed, I believe that the program of Vietnamization offers the only alternative means to provide for the self-determination of these people. As for going beyond that, projecting what may happen in the area for 20 years or 30 years or 40 years, I believe that is a mistake. We should not make that kind of a commitment.

Mr. RIEGLE. From the point of view of American objectives in South Vietnam, is it the position of this administration that free elections—and only free elections—are the nonnegotiable precondition to a complete American military withdrawal? If, at some point, a new mixed government were formed by negotiation, that was reasonably representative of the various South Vietnamese factions and power groupings, aren't there some circumstances under which we would be prepared to accept such a government?

Secretary LAIRD. We are prepared to accept whatever solution the South Vietnamese themselves freely choose. We believe this can best be reached through the process of free elections. That is why we have presented at Paris our proposals for reaching an agreement which incorporates the idea of such elections. The President has nevertheless made clear that our proposals are flexible and that anything is negotiable except the right of the people of South Vietnam to determine their own future. We are prepared to withdraw our military forces completely under any arrangement which assures that right.

Mr. RIEGLE. In our earlier discussion about the future of "Vietnamization" we discussed the question of whether the United States is prepared to guarantee the achievement of certain objectives in South Vietnam. You specifically mentioned free elections, and of course virtually every Member of Congress supports the objective of free elections for South Vietnam. But you were very vague with your answer. Let me make the question very specific. If after a reasonable period of time, a "Vietnamized" allied force in South Vietnam was unable to insure free and open elections, would we stop the American withdrawal if continued American combat operations were required to insure the objective of free elections?

Secretary LAIRD. The withdrawal of American troops will be undertaken in accordance with the three criteria announced by the President: Progress at the Paris talks; the level of enemy activity; and progress in training and equipping of South Vietnamese forces. All of our actions are of course taken in support of our basic objective of helping assure self-determination for the South Vietnamese people. We will certainly do our part to help insure the freedom and fairness of any elections involved in this self-determination process.

Mr. RIEGLE. In the fiscal year 1971 budget you have proposed, what number of combat maneuver battalions, and what number of combat support troops are contemplated to be withdrawn during such fiscal year?

Secretary LAIRD. We plan to have 29⅓ active and reserve division forces equivalents in our general purpose forces at the end of fiscal year 1970, 3⅓ less than at the end of fiscal year 1969. However, because of the uncertainties surrounding deployments in Southeast Asia beyond April 15, 1970, we cannot project the detailed structure of our land forces for fiscal year 1971. However, we do plan for active duty military personnel to decline from an estimated 3,161,000 at the end of fiscal year 1970 to a planned 2,908,000 at the end of fiscal year 1971.

Mr. RIEGLE. If we were to assume that all American combat and combat support troops were withdrawn from Viet-Nam at a steady rate so that all American combat and combat support troops were withdrawn by June 30, 1971, what amount may be deleted from the proposed Defense appropriation for fiscal year 1971?

Secretary LAIRD. On March 3, 1970, the Assistant Secretary of Defense (Compt) testified before the House Committee on Appropriations regarding the full and incremental cost of U.S. forces engaged in the war in Southeast Asia. On table 11a of this testimony, the incremental TOA in fiscal year 1971 for the support of our forces in Southeast Asia was ———. This amount includes military assistance service funded of ——— for the South Vietnamese and other allied forces. Thus, the TOA in fiscal year 1971 for the support of U.S. forces would be about ———. If your question assumes a steady redeployment during fiscal year 1971 of all U.S. forces from Southeast Asia and a return to the baseline force, the possible reduction in TOA would be about ——— depending on the one-time costs of redeployment and the rate of reduced accessions to force structure.

Mr. RIEGLE. Between July 1, 1969, and April 15, 1970, we understand that the President will have withdrawn 115,000 men from Vietnam, including approximately one-third of the combat maneuver battalions. Can you tell us the dollar savings in the fiscal year 1970 budget by reason of this withdrawal?

Secretary LAIRD. The redeployment of U.S. forces from South Vietnam between July 1, 1969, and April 15, 1970, made possible a reduction in the fiscal year 1970 budget of $777.4 million in TOA with an estimated fiscal year 1970 expenditure reduction of $631.4 million.

Since the three redeployment increments were time-phased during the fiscal year, with the largest increments occurring late in the year, the full annualized cost reduction does not occur in fiscal year 1970. In addition, the time lag between redeployments and deactivations serves to further depress the initial cost reduction impact. The fully annualized savings of the 115,000-man redeployment and associated reductions in end-strength are reflected in the fiscal year 1971 budget. It is estimated that the cost savings made possible in fiscal year 1971 would be substantially greater.

Mr. RIEGLE. We have previously been advised by Pentagon officials that approximately 1½ billion dollars per year is saved by transferring one combat division from Viet-Nam to the United States. Is this figure correct? If not, what is the figure?

Secretary LAIRD. The redeployment of one Army infantry division force equivalent (50,000) from South Vietnam to the United States would allow an annual reduction in TOA of about ——— in addition, one-time savings attributable to the shortening of the supply pipeline would amount to approximately ———. The annual TOA cost of the division force equivalent in the United States would be approximately ———. None of these cost estimates include the cost of initial equipment, modernization, or specialized weaponry applicable to armored and airmobile divisions.

Mr. RIEGLE. Please detail as specifically as possible the nature of the immediate military threat posed by Red China to the Republic of China.

Secretary LAIRD. ———.

Mr. RIEGLE. Please describe the current political situation in Greece: To what extent does the military enjoy public support. Given our belief in freedom, and democratically elected governments, are there any conditions under which we would consider cut-off American military support to this regime?

Secretary LAIRD. Since it seized power by a coup in April 1967, the present regime is in substantial control of Greece. On September 28, 1968, a new constitution was favorably accepted and the present regime put into effect all except those sections which concern civil rights and political activity. Although the regime has committed itself to the full restoration of constitutional norms, it has not committeed itself to a firm date as to when this will be accomplished. Shortly after the coup in April 1967, the U.S. instituted a selective suspension policy on the delivery of major military items programed under its Military Assistance Program (MAP) for Greece. Following the Czechoslovakian crisis, the United States agreed to some exceptions to the suspension policy with particular reference to those items whose end-use supported a NATO requirement. Other than these exceptions the selective suspension policy remains in effect. This administration is actively reviewing our military supply policy for Greece. Any determination by the United States on this matter will take into account Greece's position in NATO as well as other factors relevant to U.S. interests in Greece.

Mr. RIEGLE. Mr. Secretary, where do you see the Arab-Israeli war heading and to what extent will our arms slow down or defuse the conflict in this part of the world?

Secretary LAIRD. Mr. Riegle, that is a very difficult question. First, where do we see the war heading? We hope, of course, that we will be able, through our bilateral and four-power talks and other initiatives, to find a way to achieve a lasting peace in the area. There is, obviously, a danger here of further escalation, and of a continuing and debilitating conflict. We hope this can be avoided, that we can work out, in the two- and four-power talks, and in contacts with both sides,

a genuine peace settlement. If this proves unattainable, we hope it will at least be possible to limit the hostilities and avoid further deterioration.

The second part of your question is whether our arms will slow down or defuse the conflict. To answer this in the affirmative is perhaps not as contradictory as it may sound. It is possible—and we hope it will turn out—that arms sales to Israel will, by keeping Israel strong, deter major Arab attacks and thus prevent a new war. We also believe that limited arms sales to moderate Arab countries will help keep present moderate regimes in power. These governments, whatever their failings may be, are preferable to the more radical Arab leaders waiting in the wings. Also, our sales give them an alternative to accepting Soviet arms, help maintain at least some U.S. influence, and thus help avoid total polarization of the area along Arab/Soviet-Israel/United States lines.

In short, it is our hope that the arms being supplied to Israel will not only give Israel an improved defensive capability but will enable that country to show greater restraint in its actions against its neighbors, particularly Jordan and Lebanon; and it is our hope that the arms being supplied to the moderate Arabs will enable their present regimes to resist radical inroads and will keep the door open to eventual settlement. Both these objectives we consider to be in our own best interests.

Mr. RIEGLE. At the present time we are providing military assistance, in some form, to approximately 70 nations. Would you please detail for the committee the criteria that the Department of Defense uses for deciding to give military assistance to a country? Using the Middle East as an example, is military assistance provided to a country based on its political stability, economic resources, political ideology, historical relationships, reaction to Russian arms sales and grants, et cetera?

Secretary LAIRD. The U.S. Military Assistance Program was initiated 20 years ago when Congress appropriated $1.3 billion to provide military equipment and training to strengthen free world collective security. Two years later, at the height of U.S. efforts to bolster NATO, our appropriations for grant aid reached an all-time high of $6 billion—the bulk of which was provided NATO Europe. In 1960, the main emphasis of the grant aid program drifted to the "forward defense" countries in the Near and Far East. Our principal goal for these countries is to strengthen their capability to defend against the threat of external attack, thus reducing the requirement for the deployment of U.S. forces abroad. This goal is consonant with the doctrine outlined by President Nixon at Guam in 1969.

The major recipient of U.S. grant aid in the Middle East is Turkey. Our assistance to Turkey is predicated upon that country's membership in NATO, its strategic location, basic military requirements

established through close consultation, and a number of related considerations. We also keep under constant review the delicate political situation in the eastern Mediterranean region, as well as those economic and financial factors that affect Turkey's efforts to maintain an effective military establishment.

Mr. RIEGLE. Mr. Secretary, where do you see the Arab-Israeli war heading and to what extent will our arms slow down or defuse the conflict in this part of the world?

Secretary LAIRD. Mr. Riegle, that is a very difficult question. First, where do we see the war heading? We hope, of course, that we will be able, through our bilateral and Four-Power talks and other initiatives, to find a way to achieve a lasting peace in the area. There is, obviously, a danger here of further escalation, and of a continuing and debilitating conflict. We hope this can be avoided, that we can work out, in the Two and Four Power Talks, and in contacts with both sides, a genuine peace settlement. If this proves unattainable, we hope it will at least be possible to limit the hostilities and avoid further deterioration.

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Mr. RIEGLE. I appreciate your responses.

Mr. PASSMAN. Thank you, Mr. Riegle and Mr. Secretary.

Mrs. HANSEN. First, Mr. Secretary, may I apologize for not being able to be present earlier. My Interior Subcommittee is holding hearings, too.

My question concerns the Interior Subcommittee's operations as it reflects on some of our international programs. This morning we had our hearing on the budget of the Office of Oil and Gas and discussed very frankly the position of the U.S. oil reserves and our commitment of reserves, as they would be affected by the Near East problems and the present explosive situation. What we have to do in an emergency, what the NATO countries will be called upon to provide, and so on.

This afternoon, the Office of Coal Research was before us and, as you well understand, coal as a potential source of our energy picture in the not too far distant future is emerging clearly as a necessity. We had presented to West Germany four specific problems in coal

research in which they could participate. They indicated no interest whatsoever. Yet, at the same time, they have entered into an agreement with the Soviet Union where they are furnishing the steel and have developed the techniques for a pipeline from Russia to come into West Germany. We have troops in West Germany and they are of material assistance to their economy.

Off the record.

(Discussion off the record.)

COST OF U.S. TROOPS IN GERMANY

Mrs. HANSEN. How much do we spend in Germany as a result of our troops being stationed there?

Secretary LAIRD. The total amount we spent in Germany in fiscal year 1969 was $909 million.

Mrs. HANSEN. You would think that there could be some more interest on the part of Germany in participation in some basic research that would furnish answers to this problem because the coal areas of Western Europe have a great deal of potential for the future in the supplying of energy. This basic research could be used. Yet we see this fascinating picture, and it is a rather frightening picture, of West Germany becoming dependent, energywise, upon the Soviet Union. It does not make sense in this total picture.

At the same time, they are developing the pipeline which could be that potential that ties West Germany eventually to the Soviet Union for certain parts of their energy supply.

Secretary LAIRD. I understand. I think the point is a good one. I am not now aware of it, but I am going to look at it.

Mrs. HANSEN. The pipeline story has been brought up several times in a lot of newspaper stories. This morning we went into the resources and our need to stablize all our resource production in the event of certain problems developing in the oil-producing countries.

ZERO DRAFT CALL

What would be the earliest practical date that would be reached on the draft or all-volunteer Army?

Secretary LAIRD. Based on current and projected monetary considerations and acceptability of voluntary service by young people, I personally think the earliest practical date would be July 1 of 1973. I am going out on a limb on this. We could reach it earlier if all of the uncertainties were to break in favor of volunteerism including congressional willingness to provide the substantial funds that will be needed. I don't like to make projections or forecasts like that, but I believe that, assuming our Vietnamization program makes the progress I expect it to make during the next year, and assuming other favorable events, we would then be in a position to reach the zero draft call level. We have not had a zero draft call level since prior to Korea.

MILITARY HOUSING

Mrs. HANSEN. What percent of your housing needs are being met during these times of the expenditure limitations for the armed services?

Secretary LAIRD. We have almost doubled our family housing program in this budget from 4,800 units in fiscal year 1970 to 8,000 in fiscal year 1971.

Mrs. HANSEN. What percentage of the need is that meeting?

Secretary LAIRD. The 8,000 units in the fiscal year 1971 program represents almost 7 percent of our net long-range deficit for housing for eligible personnel.

Mrs. HANSEN. Is that all we have done to meet the housing needs?

Secretary LAIRD. This is housing needs for all married eligible military personnel.

General WHEELER. I don't think we have a better figure than that.

Secretary LAIRD. That is about the figure.

Mrs. HANSEN. What is the percentage increase per year or the percentage decrease?

Secretary LAIRD. This year we have gone forward with 8,000 units which is twice the number of units we went forward with in 1969.

SERVICE IN COMBAT FORCES BY DRAFTEES

Mrs. HANSEN. Do you think that one restriction which I mentioned, which has been a part of several bills that have been introduced, that without a declaration of war, draftees should not serve in combat forces overseas?

Secretary LAIRD. First, Mrs. Hansen, I don't believe that the U.S. military forces should be engaged in combat without the approval of Congress. Whether approval is in a declaration of war or by the Congress specifically approving the deployment of troops to various areas—I don't really care about the wording of the resolution. I do think, however, that there should be congressional approval before American combat forces are engaged in major activities worldwide. I believe that this is a position the President has expressed. He has also said that, before committing ground combat forces in Laos, he would come to the Congress and ask for congressional approval. I believe that congressional approval should be necessary before combat forces are committed.

Mrs. HANSEN. Off the record.

(Discussion off the record.)

Mrs. HANSEN. Thank you very much, Mr. Secretary. I deeply appreciate your comments on my questions which are not the usual foreign aid questions.

Mr. PASSMAN. We will have General Warren here for the next several days for further questioning on the details of the program.

Secretary LAIRD. Mr. Chairman, I don't mean to be rude to the committee in any way, but I have a White House appointment at 15 minutes after 5.

Mr. PASSMAN. Dr. Long has one question.

Mr. LONG. I am always the anchor man. I will be very short.

ZERO DRAFT OBJECTIVE

I might say that I was interested in one comment. It strikes me as immoral to do away with the draft in a shooting war. I really feel very strongly that all young men in this country ought to stand ready, and I don't like the idea of our reducing this for national tension and so on.

I am not even sure it is a wise objective, even if we could do it financially. If you want to——

Secretary LAIRD. I would like to support the objective of reducing draft calls to zero as rapidly as we can. That is the objective that I am working toward.

Mr. LONG. I might say, if you want to keep young people in the Armed Forces you might act to make conditions better and to minimize a lot of hard feelings.

Secretary LAIRD. We are.

Mr. LONG. A lot of them suffer harassment.

Secretary LAIRD. We are even looking into KP duty.

UNITED STATES AND EUROPEAN ARMS SALES

Mr. LONG. Mr. Secretary, President Nixon said in a state of the Union message that the great powers would try to damp down rather than fan local tensions by showing restraint in the sale of arms to regions in conflict. We stand ready to discuss practical arrangements to this end.

How does the Defense Department interpret this? How are we cutting down on arms sales? Where we are on the threshold of Communist aggression, I agree arms sales are justified. Maybe we ought to step it up. I am talking now about Latin America, Middle East, and so on. What is our policy there?

Secretary LAIRD. We have not been moving forward with an aggressive arms sale program, but it so happens that other countries are doing so in Latin America. I would like to supply for you at this point in the record the sales that are being made by the European nations in the Latin American countries. Because of our less liberal credit arrangements, they have been able to move in there at a very rapid rate.

Mr. LONG. Do you feel that we have to stay in there to compete with them? I don't thing we are ever going to cut down if we take that attitude.

Secretary LAIRD. We have not been doing that. The bulk of our sales is to Western Europe, Australia and Japan.

Mr. LONG. Let me take two instances.

Secretary LAIRD. Africa represents 1 percent of the total military sales we have made, and Latin America represents 3 percent.

Mr. LONG. What about the sales to Libya? The United States delivered 10 ——— F–5 jets. ———.

Secretary LAIRD. ———

Mr. PASSMAN. I must ask the gentleman to yield.

Secretary LAIRD. I would like to add something to that.

Mr. LONG. Let me finish, Mr. Chairman. I sit here hour after hour and the chairman is on every page of these hearings for thousands of pages.

Mr. PASSMAN. I will ask the question after you have concluded.

Secretary LAIRD. May I supply a little more on a comparison of the F–4 with the Mirage and problems involved? It is not quite as simple as the record may indicate.

Mr. LONG. I don't doubt what you are saying about the economics of this. I think on moral grounds we ought to be staying out of this. That is my feeling that I would like to put on the record. I think that we

are wrong to be doing it for economic reasons or for even politcal reasons. I don't think we are ever going to get out of this competitive arms sale business or tone down the arms race until we say unilaterally we are not going to do it. In the Far East, where we face communist aggressors, we have to move in, and I would be inclined to put more stuff than we are putting over there to keep American boys from having to fight there.

As far as Latin America and the Middle East, I think not.

Mr. PASSMAN. Do you yield?

Mr. LONG. Yes.

Mr. PASSMAN. I am chairman of this committee and I have to try to keep the record straight. We have an economic aid program going in these nations. These people are determined to have military equipment and it is a commodity that we sell at a profit.

Secretary LAIRD. I would like to make the observation——

Mr. PASSMAN. If you don't sell them military equipment, they are going to take resources out of their own economy to pay for the military equipment. Then we make up or fill up that vacuum by our grant economic aid program or by these long-term loans. It is just that simple.

Mr. LONG. The Long-Conte amendment is designed to discourage that.

Mr. PASSMAN. Long-Conte-Passman amendment. Only if we cut off economic aid can we enforce it. Let us be realistic about this. As long as you have a grant economic aid program going in, these people can take money out of their own economy earned by their exports, pay for the military hardware, and we will be filling the vacuum with American wealth.

I had to make that statement for the record because it is just that simple.

Thank you very much, Mr. Secretary.

Secretary LAIRD. I will add to that later, Mr. Long, because we do have an interest in meeting the requirement we see in the area.

Mr. PASSMAN. Elaborate, if you desire, on what I have said and the accuracy of it.

Secretary LAIRD. Right.

Mr. PASSMAN. Thank you very much, Secretary Laird and General Wheeler for your testimony today.

WEDNESDAY, MARCH 11, 1970.

Mr. PASSMAN. The committee will come to order. We will continue our examination of the budget request for the military assistance program for fiscal 1971. We have as the principal witness this afternoon, Lt. Gen. Robert H. Warren, the Administrator of the program, and the supporting witnesses.

I would assume, General Warren, that you have a statement you would like to make to the committee.

General WARREN. I have; yes, sir.

GENERAL STATEMENT OF DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MILITARY ASSISTANCE AND SALES

Mr. Chairman and members of the committee, Secretary Laird's appearance before this subcommittee yesterday has, I am sure, satisfied

your interest in the current role both the military assistance program and foreign military sales are expected to play in support of the national security and foreign policy objectives embodied in the Nixon Doctrine. My own presentation begins where his left off. Its purpose is to provide you with a rather detailed delineation of how we propose to use the appropriations we are requesting to promote those objectives. Its pattern will follow that of the written justification you have in the documents before you. I shall not, however, cover in my prepared statement more than the key points I believe should be highlighted before we proceed to your questions.

The first of those key points was underscored by Secretary Laird when he spoke to you of his concern about the adequacy of the $350 million authorization for the fiscal year 1971 Military Assistance Program contained in the Foreign Assistance Act of 1969. I share that concern. At the present time, and until the review mentioned by the Secretary is completed, we must live with that concern and do the best we can within the amount authorized to be appropriated. The result is the minimal program you have before you. In terms of total fund availability, it is, of course, the smallest in the 20-year history of military assistance; and, as you will note from the table on page 5 of the MAP presentation document, it is somewhat smaller than the extremely austere programs of the previous 2 years. This trend would appear to be at variance with the Nixon Doctrine which implies more, rather than less, military assistance in support of allied and friendly armed forces which are to assume greater responsibility for their own and the common defense.

You will also note from the table I am addressing that, whereas reappropriations and reimbursements have varied only slightly over the past 3 years, recoupments have dropped by more than half during the same period. This decline is a natural consquence of steady shrinkage in the size of the undelivered balance. The end result, however, is that our total obligational authority has decreased by almost $63 million since fiscal year 1969 while our appropriation has been reduced by $25 million; and, although our new obligational authority is assumed to be $350 million for fiscal year 1971, as it is for fiscal year 1970, the total $392 million program proposed for the coming year is smaller by $17 million than that for the current year.

Apart from this reduction in size, there is very little difference between the proposed fiscal year 1971 military assistance program and that for fiscal year 1970 which we presented to this subcommittee last year. The two are strikingly similar in scope, objectives and general magnitude; and there has been only slight change in the allocation of available assets to the various regions and recipient countries, or in the equipment content of the individual country programs.

The reason for this similarity is inherent in what Secretary Laird said yesterday to the effect that the foreign policy considerations which establish the criteria and priorities for program development allow us little flexibility in the allocation of available funds. The circle graph on page 2 illustrates his point that first claim to over 80 percent of the total $392 million program is made by four forward defense countries——— I shall have more to say about these seven countries as we run through the geographical sections of our presentation, but I am sure there can be few doubts about the validity of the objectives which account for the priority assigned them.

Meanwhile, I would invite your attention to a second circle graph which appears on page 4 and demonstrates another type of limitation on our programing flexibility, also mentioned by the Secretary. Here again, highest priority claims account for some 80 percent of the $392 million total obligational authority. In this case, operating costs, supply operations and training must be provided for merely to maintain the staus quo. Only after these costs have been met, can we begin to think about urgently needed and long overdue modernization of forces. Even then, the one-fifth of total assets remaining available for investment in new materiel to replace wornout and obsolescent equipment which prevents those forces from making their full potential contribution, in their own and the common defense, must be applied so sparingly as to permit only very modest progress. I shall have more to say about this problem, too, as we consider the geographical distribution of the proposed fiscal year 1971 Military Assistance Program.

The Republic of Korea offers a good example of ——— resulting from reduced fund availability. When our budget request for the fiscal year 1970 worldwide Military Assistance Program was cut by $75 million, the program for Korea had to be reduced from the $164 million level I defended before this committee last year to the present $140 million which includes the $50 million add-on. The problem is further complicated by the fact that ——— of that $140 million must be used for operating expenses, training and supply overhead.

The impact of these twin factors is grave indeed. Our Korean friends are seriously concerned. Their estimates as to specific results to be expected from this combination of constraints on program levels and content, even allowing for some possible but natural exaggeration, is, I think, worth noting. They say that:

———.

These are just a few examples which have been cited to justify the concern with which our Korean allies view present program levels; but they are typical of similar problems confronting other forward defense countries as well; and all our military assistance planning takes them into full account.

The largest regional allocation is that $183.2 million—or almost 47 percent of the total worldwide program—to the East Asia and Pacific area where two of our staunchest allies play a vital part in forward defense. This is, of course, the area to which the Nixon doctrine was first applied and in which, therefore, a requirement for more rather than less military assistance is increasingly apparent.

As I have already indicated, the needs of the Republic of Korea are particularly urgent. Despite the threat posed by a belligerent North Korea, which has substantial conventional forces and has engaged aggressively in infiltration and subversion, 50,000 ROK troops are still fighting beside our own forces in Vietnam. Meanwhile, Soviet support for North Korea continues; and it is therefore vitally important that U.S. military assistance be provided to help the Republic of Korea improve its ability to deal effectively with North Korean land and sea infiltration and intrusion. Progress toward this objective is, however, limited by the fact that an extremely high percentage of the funds allocated to the entire region is needed for operations and maintenance, training and supply operations costs which cannot be met by recipient countries from their own resources.

Fortunately, another forward defense country in the area, the Republic of China, has steadily assumed a greater share of its own defense costs. Recent substantial reductions in grant aid, which have been the inevitable result of declining MAP appropriations, are being partially offset by GRC purchases from the United States of required and approved equipment, and by increased use of equipment which is excess to the requirements of U.S. forces. We estimate that, during fiscal year 1971, U.S. military exports to the Republic of China will include FMS cash orders in the amount of ——— FMS credit-assisted sales, ———; and commercial sales, ———.

Another helpful development in the initiation, in 1969, of ———. These initiatives on the part of the Republic of China, together with its continuing shift from grant aid to FMS and commercial purchases, are both welcome and fully consistent with the Nixon Doctrine.

Only two other countries in the East Asia and Pacific region are scheduled to receive materiel as well as training in fiscal year 1971. The proposed ——— program for the Philippines, ——— of which is in operating costs, will provide minimal improvement in mobility and coastal patrol capabilities. That for Indonesia, in the amount of ——— places continued emphasis on training, spare parts and equipment, including heavy construction items, in support of the civic action and rehabilitation efforts of the Indonesian Armed Forces.

Finally, ——— worth of in-country training is proposed for ——— and ——— is earmarked for the training of Malaysian military personnel both overseas and in the United States.

The second largest area allocation is the $124 million—or almost 32 percent of the total worldwide program—to the Near East and South Asia region. Once again, the importance of forward defense country armed forces is apparent in the earmarking of ——— of that amount for Turkey, and another ——— for Greece. The ——— balance covers proposed programs of training overseas and in the United States for Iran and Saudi Arabia, relatively small and as yet undistributed amounts of training in the United States only for seven other area countries, and regional costs. With respect to the two countries for which materiel programs are planned, the relationship between operating costs and investment is more favorable than in the East Asia Pacific region. The proposed program for Greece allocates ——— for investment, and that for Turkey, ——— for investment.

The significance of these percentages lies in the forward defense mission of Greek and Turkish forces and the urgent need for modernization of their equipment. The Warsaw Pact invasion of Czechoslovakia and subsequent threats to Romania and Yugoslavia have reemphasized the geographic isolation of Greece and Turkey from the rest of NATO. Increased Soviet naval strength in the Mediterranean also underscores the strategic location of these two NATO nations, both of which border the Aegean Sea through which Soviet sea traffic must pass en route to and from Soviet bases in the Black Sea. The United States continues therefore to have a vital interest in the security of Greece, the effectiveness of its armed forces, and joint participation in the North Atlantic Alliance. In this connection, it should be noted that, despite the suspended delivery of some major items of equipment programed under MAP prior to the 1967 coup, Greece has authorized uninterrupted U.S. use of strategically important communications, air, and naval facilities in Greece.

Neither Greece nor Turkey will be able for some time to come to maintain armed forces adequate to their self-defense or their NATO mission without outside assistance. Reductions in the grant-aid programs for these two countries, which started in 1968, are therefore a matter of considerable concern because they have made it necessary to delay urgently needed modernization and upgrading of MAP-supported Greek and Turkish forces largely responsible for the protection of NATO's exposed southeastern flank. Programs for both countries are based on the underlying premise that their planning must be in the context of total actual resources expected to be available.

Accordingly, we have already begun the gradual shifting of Greece from grant aid to sales; and, for fiscal year 1971, the proposed MAP allocation of ——— for limited force improvement, training and operating and maintenance support will be supplemented by an anticipated ——— in U.S. military export sales. Of the latter amount, ——— is FMS cash orders, ——— FMS credit programed, and ——— commercial sales.

The proposed allocation of ——— in grant aid to Turkey is designed to permit continuing modernization at as rapid a rate as fund availability will permit, and to assist in the operation and maintenance of the Turkish Armed Forces. Although Turkey's continuing economic difficulties prevent any significant shift from grant aid to sales, ——— in FMS credit sales have been proposed for fiscal year 1971, as well as ——— in FMS cash orders and ——— in commercial sales.

Iran's economic progress has made it possible for that key forward defense country to assume a progressively larger share of responsibility for its own defense requirements. Materiel grant aid was terminated in fiscal year 1969, and the only grant aid proposed for fiscal year 1971 is ——— worth of training in the United States and overseas for Iranian military personnel. We also plan to offer ——— in credit sales. This, plus the smaller amounts earmarked for Greece and Turkey, represents 36 percent of the total worldwide FMS credit proposed for fiscal year 1971.

Because of political sensitivities in the area, U.S. arms sales to Israel and the moderate Arab States are subject to an especially detailed case-by-case review. A number of Israel requests, including those for additional tanks and aircraft, are under consideration; but, as of now, we are proposing ——— in FMS credit for Israel in fiscal year 1971. Amounts of FMS credit proposed for Jordan and Saudi Arabia in fiscal year 1971 are ——— and ——— respectively.

U.S. grant aid to India and Pakistan is limited to MAP training in the United States. Foreign military sales to these two countries are restricted to follow-on support items and nonlethal end items. FMS credit of ——— has been proposed for each country in fiscal year 1971. Grant aid for Afghanistan, Ceylon, Jordan, Lebanon, Nepal, and Saudi Arabia will be limited to providing training.

In the European region, the shift from MAP grant aid to sales is practically completed. Military assistance proposed for the area in fiscal year 1971 amounts to $26.1 million and represents less than 7 percent of the total worldwide program———.

Military export sales to European countries are expected to amount to $857.5 million during fiscal year 1971. Of that amount, $660.8 million is estimated to be in the form of FMS cash sales, and the bal-

ance commercial sales. These figures indicate that total military export sales to Europe represent almost one-half of the worldwide total, and that FMS cash sales to the area account for more than half of the worldwide total. The outlook for the future, however, indicates a decline in both their volume and their proportion to the worldwide total. This trend is attributable to several factors including the increased volume of sales to non-European countries, improving European technological capability which allows many countries to produce more of their own and their neighbors' military materiel requirements, growing European political and economic incentives to develop and produce indigenous major military weapons systems, and U.S. reluctance to provide offsetting orders from the United States as *quid pro quo* for European purchases of U.S. military hardware.

Military assistance to Africa is, as you know, subject to several legislative restrictions. Unless the President determines otherwise, it may be provided for the purpose of internal security or civic action only. MAP grant aid is limited to $25 million annually, including training; and the Foreign Military Sales Act has imposed a ceiling of $40 million annually on the total value of military assistance grants and sales, exclusive of training. The $18.6 million grant program proposed for Africa in fiscal year 1971, and FMS cash and credit sales estimated at $17.7 million, are, of course, in full compliance with these various restrictions. Both are also fully consistent with our limited military assistance objectives in Africa, which are:

First, ———

Second, to lessen the impact of military imbalance in north Africa and thereby ease the tensions resulting from Soviet arms deliveries to Algeria.

Third, to assist in improving the capabilities of the armed forces of selected countries to maintain internal security as a basis for orderly national development.

In support of these objectives, the less than 5 percent of the total worldwide Military Assistance Program allocated to Africa is designed to provide both materiel and training to the Congo, Ethiopia, Liberia, and Tunisia. The program proposed for the Congo in the amount of ——— will complement and encourage the efforts of other friendly nations—particularly Belgium, Italy, and Israel—to assist in the development of Congolese armed forces which, in conjunction with civil police and other national security forces, will be capable of maintaining internal security. It is composed of limited quantities of trucks and radios, spare parts and attrition replacements for equipment previously furnished, and limited technical training related to that equipment.

The ——— allocated to Ethiopia, ——— It is essentially ——— but the program itself is also designed to assist in the development of Ethiopian military forces which, in conjunction with the police, can maintain internal security. During fiscal year 1971, we propose to provide ——— continue equipping the Ethiopian Army under the 1960 commitment and support previously provided equipment and training.

The ——— program proposed for Liberia in fiscal year 1971 emphasizes training and will also provide a small amount of materiel, primarily for replacement and maintenance of equipment on hand. It is designed to help improve the quality and effectiveness of Liberia's

military forces which, in conjunction with the civil police, can maintain internal security and engage in civic action projects, and also to maintain a political atmosphere friendly to the United States.

Military assistance to Tunisia, while making no attempt to bring about arms parity, is intended to assist in reducing the military imbalance and resulting tensions between that country and its Soviet-supplied neighbor, Algeria, and to develop a sense of security essential to continued economic and social growth. The program proposed for fiscal year 1971 amounts to ——— and will provide equipment and training which will contribute to the development of forces capable of providing limited self-defense and internal security. You will note that this ——— less than the amount shown for the proposed Tunisian program in the presentation document.

Since that document was printed, the State Department requested and the Secretary of Defense approved, an increase in the African area allocation from the ——— to permit a limited training program for Nigeria, in addition to several other countries, such as Ghana and Senegal. We anticipate a training requirement, primarily in support of civic action, for a number of Nigerians as an important U.S. contribution to Nigerian rehabilitation. The area funds requested will also provide for a few orientation visits for military personnel from some other African nations. The proposed fiscal year 1971 program includes ——— for the training of Moroccan military, primarily in the use of equipment previously furnished as grant aid or through credit sales.

Military export sales to Africa during fiscal year 1971 are estimated at $29.2 million, of which amount $11.5 million is for anticipated commercial sales and $7.7 million represents projected FMS cash sales. The only FMS credit proposed for Africa is ——— for Morocco. All military exports to Africa are, of course, carefully evaluated to insure that they meet established criteria and are consistent with U.S. security and foreign policy objectives. Accordingly, Congolese purchases may expand as the Congo's economy continues to improve and we proceed with a planned transition from grant aid to sales. Sales to Morocco are expected to increase slightly ———. The new Libyan regime has indicated continuing interest in U.S. training, equipment and contract technical support, all of which it can well afford to finance from its large oil income.

The smallest regional allocation of MAP grant aid is that of $16.2 million, or just slightly over 4 percent of the total program, to Latin America. This allocation reflects the will of the Congress as expressed in a number of legislative restrictions which control both the programing of of military assistance and FMS operations throughout the area. Chief among them are the $25 million ceiling imposed on the total value of grant defense articles provided Latin America per fiscal year; limitation of further military assistance to prior commitments, civic action and, when determined by the President necessary, internal security; and a requirement that consideration be given to excluding assistance to any country which seizes, or imposes any penalty or sanction against, any U.S. fishing vessel for fishing in international waters.

Over and above these and other restrictions contained in the Foreign Assistance Act, the Foreign Military Sales Act imposes a monetary ceiling of $75 million per year on the value of defense articles and services (other than training) available to Latin America in the form of

grant aid, cash sales by Defense agencies or credit sales financed or guaranteed by the Department of Defense. This ceiling also covers the value of vessels transferred under the authority of ship loan legislation.

Both the grant aid proposed for 17 Latin American countries and anticipated Foreign Military Sales to the area for fiscal year 1971 are not only in complete compliance with all applicable provisions of the law, but also fully consistent with national security and foreign policy considerations. The two principal objectives of the Military Assistance Program are to help Latin American nations maintain military and paramilitary forces capable of providing, with police forces, internal security essential to orderly political, social and economic development; and to improve the capabilities of indigenous forces in the field of civic action. We also seek, ——— to encourage Latin American countries to develop only those military forces that are necessary for valid security needs and to avoid expenditures which might interfere with socio-economic progress.

In support of these objectives, $15.7 million of the proposid fiscal year 1971 grant aid program for Latin America will be used to provide the 17 recipient nations with equipment and training designed to strengthen their internal security and civic action capabilities. Six of those 17 countries are scheduled to receive training assistance only. This heavy emphasis on training is also reflected in the fact that training is an important part of the programs planned for the 11 other countries which are to receive materiel as well. In seven of those country programs, training accounts for 50 percent or more; and in only two does it represent less than 40 percent. The breakout of the total $16.2 million program for Latin America is perhaps even more striking—$10 million for training, $5.3 million for grants of defense articles and services, and $.9 million for supply operations.

With the low level of grant materiel assistance to Latin America, Foreign Military Sales assume greater importance as a means of facilitating the shift of such materiel assistance from grant to sales without undue burden on the economies of the recipient countries or encouraging an arms race in the hemisphere. Such sales are designed to provide reasonable amounts of new equipment needed as present inventories wear out and become obsolescent.

We propose therefore to continue approving purchase requests which meet all applicable criteria, including, of course, those established by the Congress.

In accordance with this policy, we estimate that total military export sales to Latin America in fiscal year 1971 will amount to $65.5 million. Within that amount, $13.8 million represents FMS cash sales, and $40 million FMS credit; the $11.7 million balance is commercial sales. The bulk of fiscal year 1971 sales is, as in the past, expected to go the larger Latin American countries which are financially capable of meeting their security needs without materially interfering with economic development programs.

This concludes my region-by-region review of our MAP and FMS proposals for fiscal year 1971. Before bringing my presentation to a close, however, there are two final points I want to make.

The first concerns excess and long supply defense articles which we propose to provide recipient nations during fiscal year 1971. Declining MAP appropriations make it especially important that we leave no

stone unturned in our efforts to augment the amount of materiel available for allocation in support of the Nixon Doctrine. One way in which we are trying to do so is through optimum use of Department of Defense assets in long supply and excess which can be used to meet valid MAP requirements without reimbursement. The prudent application of this materiel to MAP has dictated a need for more precision in establishing a realistic value of the materiel provided. Much of it—particularly major items—requires extensive overhaul and, in some cases, is useable only as a source of spare parts through cannibalization. It therefore becomes evident that the past procedure of listing excesses applied to MAP at original cost, or "acquisition value," without respect to age, condition or utilization, is neither an effective management tool nor an acceptable accounting procedure.

Through the process described in the section dealing with excess defense articles on page 102 of the presentation document, it has been determined that the true "utility value" of such excess articles, or the real extent to which they meet a MAP requirement, is in the overall about 30 percent of its acquisition cost. More specifically, in the field of major end items provided under these procedures, and of all items, major and secondary, provided from disposal yards, "utility value" averages very close to 25 percent of acquisition cost. Secondary items are, however, in like-new condition; and their utility value is equal to acquisition value. This factor was, of course, taken into full consideration in arriving at the 30 percent for overall "utility value."

The quantity, utility value and tentative allocation of excess defense articles during fiscal year 1971 are set forth on pages 103 through 108 of the presentation document. The forecast for fiscal year 1971 is, as you will note, dependent upon availability of excess defense articles from the military departments at the time of program implementation. Our best present estimate indicates that the grand total of excess in the fiscal year 1971 program will be about $152 million. Of the amount, some $123 million represents major items, and $29 million secondary items and spares.

While this source of additional materiel is being used to good effect, it cannot be depended upon to meet specific needs that must be fulfilled at once. It is not a substitute, but a supplementary means of meeting valid requirements of MAP recipients. Nor can it be expected, except in isolated cases, to supply newer types of equipment to replace major items in foreign country inventories which are rapidly approaching wear-out and obsolescence.

The final point I wish to address in this prepared statement is a matter of such concern to us that I raise it at this time even though it is not directly related to the budget estimates you are considering. I refer to the new section 510 of the Foreign Assistance Act of 1969. This section, as I am sure you are aware, restricts the number of foreign military students to be trained under MAP in the United States in any fiscal year to a number equal to the number of foreign civilians brought to the United States under the Mutual Educational and Cultural Exchange Act of 1961 in the immediately preceding fiscal year. Compliance with this amendment will involve reducing by one-third what is generally conceded to be one of the most important and productive forms of military assistance. Whereas the number of foreign military personnel annually trained under MAP in the United States has

remained fairly constant at approximately 6,000 over recent years, the number of trainees brought to the United States in fiscal year 1971 must be restricted to 4,000.

This means that, at the very time we are asking our friends and allies to assume more responsibility for their own and the common defense, we must sharply curtail our efforts to enhance their professional skills and to increase their understanding of what we consider the proper role of the military in a democratic society. Secretary Laird recently stated that our MAP training is "one of the most important and successful programs we have had, not only in South America but other places of the world." He also expressed his hope that the section 510 restriction would be repealed because it "limits that program and curtails us and would force us to cut it back materially. . . ." If such reduction continues to be necessary, I believe that both the capabilities and the potential contribution of allied and friendly countries and their armed forces will be diminished.

Any such diminution, whatever the cause, is inconsistent with our national interest and with the security and foreign policy of the United States. Both the Military Assistance Program and foreign military sales are specifically designed to—and, if adequately funded, will—advance that interest and promote that policy. I believe that the appropriations we are requesting in this presentation are the minimum needed to provide that adequate funding; and I therefore urge your favorable consideration of our requests.

Mr. PASSMAN. General Warren, thank you for a very excellent statement.

General Warren, as you may observe, and if not you, some of the supporting witnesses have, in very recent years I have been a very strong supporter of our military assistance program. That does not mean that I do not recognize there is a lot of waste involved and that, in all probability, a lot of countries are presently getting some type of military assistance they should not get. But until the shooting stops in Vietnam, I am going to endorse continuation of this program.

REQUEST FOR FUNDS TO IMPLEMENT NATIONAL POLICY

It is my understanding that when you appear before the committee you are asking for funds to implement a policy that has previously been approved by the Congress upon the request of the executive branch.

General WARREN. Yes, sir.

Mr. PASSMAN. Your request has nothing to do with policy matters; you are only asking for an appropriation to carry out the policy already enacted into law.

General WARREN. Yes.

Mr. PASSMAN. That is why I have always pursued the type of examination that I do. I may have voted against the legislation establishing the policy, but inasmuch as that bridge has been crossed, the only way to correct any defects in the policy would be to go before the legislative committees of the Congress; namely, the Foreign Affairs and Armed Services Committees of the House, and the Foreign Relations and Armed Services Committees of the Senate. Would that be a correct statement?

General WARREN. Yes, sir.

FISCAL YEAR 1971 AUTHORIZATION CEILING FOR MAP

Mr. PASSMAN. The estimate for fiscal year 1971 is $350 million for the military assistance program; is that correct?

General WARREN. That is correct.

Mr. PASSMAN. Do I understand that your request in the amount of $350 million is limited to that amount solely because you have legislation placing an absolute ceiling on what you can request?

General WARREN. That is correct. There is a $350 million authorized ceiling.

Mr. PASSMAN. Last year the Congress appropriated $350 million for the military assistance program which you administer?

General WARREN. Correct.

Mr. PASSMAN. However, your request was for $425 million?

General WARREN. Yes.

Mr. PASSMAN. When the Congress approved $350 million, it was necessary for you to make certain deletions and adjustments so as to keep your programs within the ceiling?

General WARREN. Yes, it was,

Mr. PASSMAN. It is my understanding that the Secretary of Defense, based upon recommendations of his subordinates including you, General Warren, determined that a budget amendment or a supplemental may be necessary to furnish the very minimum amount required to implement the policy that is presently law?

General WARREN. Yes, sir.

BUDGET REQUEST FOR FISCAL YEAR 1971 SALES PROGRAM

Mr. PASSMAN. With respect to military sales, you are requesting $272,500,000 for fiscal 1971 in new appropriations, are you not?

General WARREN. That is correct.

Mr. PASSMAN. I believe your total program for fiscal 1971 is $385 million?

General WARREN. Yes, sir.

Mr. PASSMAN. What is the difference between the $272,500,000 estimate and the $385 million program? Where does that difference come from?

General WARREN. Sir, the difference between those figures represents commercial credits we hope to obtain, using a portion of our new obligational authority to guarantee these loans.

ABOLITION OF REVOLVING FUND

Mr. PASSMAN. In addition to new authorization of $272,500,000, what is the status of the old revolving fund?

General WARREN. Mr. Chairman, the Foreign Military Sales Act of 1968 ended our previous practice of using a credit sales revolving fund under the Military Assistance Program part of the Foreign Assistance Act. By law, we are now operating with credit moneys provided in appropriations. We use these funds mostly for credit to lesser developed countries which cannot afford to buy their own military equipment or manufacture their own arms.

APPROPRIATED FUNDS REQUIRED FOR CREDIT SALES

Mr. PASSMAN. You have to work out of an appropriation?

General WARREN. When we execute a credit arrangement; yes, sir.

Mr. PASSMAN. You are requesting $272,500,000 and yet you are going to be able to finance a $385 million program?

General WARREN. The difference would be private credits, if we can arrange for them, sir. We hope to obtain $150 million in private financing.

Mr. PASSMAN. For each dollar of private financing you have to maintain a 25 percent reserve; do you not?

General WARREN. Yes, sir. It is a Government guarantee which remains in the Treasury as a reserve against that private credit.

May I ask Mr. Alne, who heads our sales activity to expand on this subject?

$385 MILLION CEILING OF TOTAL CREDIT SALES

Mr. ALNE. We are proposing that the Congress authorize us to make total credit sales limited to $385 million. We cannot under any consideration lend more than that. Further, we think that of that $385 million for credit sales we will find $150 million from private credit sources. If you subtract this $150 million private credit from the $385 million that we think is the credit sales total, then you will see that we need $235 million for those credit sales that will be made directly. You are right, Mr. Chairman, in noting that we have to establish a 25-percent guarantee reserve for the $150 million we expect to get from private sources.

Mr. PASSMAN. What is the absolute ceiling of the sales authority?

Mr. ALNE. $385 million.

Mr. PASSMAN. We are dealing with two different items to get this grand total. In reality, if you could find private sales of $385 million and the money was available and the commitments had been made, then all you would actually need would be 25 percent of that amount to be able to effect a $385 million sales program; is that correct?

Mr. ALNE. That is exactly correct, but we would not be allowed to go another $5 million even if we got it from private sources.

Mr. PASSMAN. Off the record.

(Discussion off the record).

Mr. PASSMAN. General Warren?

General WARREN. I would like to mention, Mr. Chairman, that we may have difficulty in arranging sales in that amount because of the extremely high interest rates on private credits. The countries to which this money is being loaned have the final decision, and it may result that some of them will drop out because they will not pay the interest.

FMS INTEREST RATE

Mr. PASSMAN. We were told yesterday, if I remember correctly, by the distinguished Secretary of Defense, that the loans we are making now bear an interest rate of approximately 7.5 percent.

General WARREN. That is correct. It is the cost of the money to the Government. We will vary our rates as that cost of money to the Government changes.

Mr. PASSMAN. As the supply and demand controls the rates?

General WARREN. Yes, sir.

Mr. PASSMAN. You are governed by the prevailing rate?

Mr. KNAUR. It is the going rate of money.

Mr. PASSMAN. We understand that. It is now at approximately 7.5 percent and that is what you are charging on your loans. Have you had any applications that you have approved where the country later declined the loan on account of the interest rates?

General WARREN. Not to my knowledge, sir.

Mr. PASSMAN. If the Congress approves your request for $272,500,000, what part of that total do you think you would use for direct sales against what portion that would be used in guaranteeing private capital?

General WARREN. We would have to reserve $37.5 million to guarantee the $150 million private financing which we would hope to obtain.

Mr. PASSMAN. The balance of $235 million would be the amount that you could use for direct sales?

General WARREN. That is correct, yes.

Mr. PASSMAN. Do you charge the same rate of interest on direct sales as you do on the outside capital? In other words, you do not have a concessionary interest rate simply because the Department is financing the sales?

General WARREN. No, sir.

Mr. PASSMAN. You charge the prevailing money rate?

General WARREN. Yes.

Mr. PASSMAN. If it is 7.5, then they pay 7.5?

General WARREN. Yes.

Mr. PASSMAN. Of course, the Congress has not yet approved your $275 million request for fiscal 1970. Did you have any carryover funds with which you could continue the military sales program?

FMS OPERATIONS UNDER CONTINUING RESOLUTION AUTHORITY

General WARREN. Until January 28, we were authorized to operate under continuing resolution authority. In December, we did make some credit arrangements for fiscal 1970, for which we do not yet have authorizing legislation totaling approximately $70 million.

Since the continuing resolution authority expired we have no authority to negotiate any further credit sales.

Mr. PASSMAN. What was the amount of money you had for fiscal 1969 under the credit sales?

General WARREN. For fiscal 1969, credit sales totaled $239.7 million. The difference between that amount and what we requested and received was private credits we were able to arrange. We did not, therefore, use all of the money that was authorized.

Mr. PASSMAN. Under the continuing resolution you could have obligated seven-twelfths of your fiscal 1970 request?

General WARREN. We obligated $70 million, sir.

Mr. PASSMAN. I mean for the 7 months that you operated under the continuing resolution. Had you operated at the maximum you could have obligated, I believe, seven-twelfths of the total year's request.

General WARREN. That is my understanding, yes.

Mr. PASSMAN. How much did you obligate?

General WARREN. $70 million. I do not know what percentage that is.

Mr. ALNE. It is almost exactly 20 percent.

Mr. PASSMAN. Twenty percent. You were operating under a continuing resolution, so you would have had what amount available?

Mr. ALNE. Seven-twelfths of 350 would be $200 million.

Mr. PASSMAN. So you had available, if you had need of it, the use of $200 million?

Mr. ALNE. About.

Mr. PASSMAN. But you actually only obligated $70 million?

Mr. ALNE. That is correct.

Mr. PASSMAN. What part of the $70 million covered direct sales?

Mr. ALNE. All of it.

Mr. PASSMAN. Did you use any part of that as a reserve against guaranteed sales or private credit sales?

Mr. ALNE. No, sir. We have not arranged any private credit and therefore we have not guaranteed any new credit.

Mr. PASSMAN. This does not make a very good record for your new request. I did not want to lead you into this position. You asked for $275 million. You did not get it. But you did continue operating under a continuing resolution and you had available $200 million but you only used $70 million?

General WARREN. That is correct, sir.

Mr. PASSMAN. Are you going to apply that same formula to your fiscal 1971 request for $272.5 million?

General WARREN. We hope Congress will approve our request for credit funds, and that we will not be operating under a continuing resolution authority in 1971.

Mr. PASSMAN. How were you hampered in your operations, General? You could have operated at full steam for 7 months and had available $200 million with no limitation other than the restrictions that would have equally applied to the $275 millon, yet you only used $70 million of $200 million?

General WARREN. We were unable to complete certain major agreements for which these funds were earmarked in fiscal 1970, and that is why we did not use more of the funds at that time.

Mr. PASSMAN. This is a no-year fund?

General WARREN. No, sir; it is a 1-year fund.

Mr. PASSMAN. Then you still were not limited. Let's assume that you had gotten the entire $275 million, would you have used it by June 30th of this year?

General WARREN. We made a determined effort in November and December of last year to complete our arrangements for credit with as many countries as we could, Mr. Chairman. The only ones we were able to complete totaled the $70 million I mentioned which we approved last December and early January before the continuing resolution authority expired. If we could have arranged to loan the entire amount authorized under CRA, we would have done so.

Mr. PASSMAN. I am concerned, General, over whether or not you had any need for it, because you had 7 months in which to review the applications and make a decision as to whether or not they qualified for a loan and in 7 months, full steam ahead, you were only able to obligate $70 million out of the $200 million that was available to you under the terms of the continuing resolution.

Mr. KNAUR. May I speak to that?

Mr. PASSMAN. Certainly.

Mr. KNAUR. We were inhibited to a certain degree because, in many cases we did not want to move ahead to the final culmination of the agreement until we had the authority from the Congress which we expected or were hoping to receive at any time.

Mr. PASSMAN. You did have the authority to obligate up $200 million.

Mr. KNAUR. Not the authority—not a Foreign Military Sales Act for 1969.

Mr. PASSMAN. But you were operating under a continuing resolution.

Mr. KNAUR. Yes, sir.

Mr. PASSMAN. And under a continuing resolution legally you could obligate one-twelfth each month.

Mr. KNAUR. A continuing resolution is not the same as an authorization that has been reviewed and passed by the full Congress.

Mr. PASSMAN. I certainly hope you know I understand that. A continuing resolution happens to provide the same amount of money for the same purpose as you had available in the previous year. You either could have obligated $200 million or you obligated $70 million illegally, one way or the other. You had no authorization——

Mr. KNAUR. No, sir, we did not, except under the continuing resolution authority.

Mr. PASSMAN. And under that authority, you had available $200 million for 7 months.

Mr. KNAUR. Yes, sir.

Mr. PASSMAN. But you obligated only $70 million.

Mr. KNAUR. That is correct.

Mr. PASSMAN. The next point is that if you had an additional period of 1 or 2 more months, would you have been able to utilize a larger part of the $275 million than you did?

General WARREN. Yes, sir, we would have been able to complete some of the arrangements reflected in our chart of projected fiscal 1970 sales. There are several large amounts of credit that have not been quite agreed to as yet, such as ——— tentatively earmarked for Iran, ——— for Israel and others. But we were not able to complete our country-to-country agreements before the continuing resolution authority expired. Had it been continued, we would have used more of this credit money.

PERCENTAGE OF FMS CREDIT OBLIGATED LATE IN YEAR

Mr. PASSMAN. General Warren, what accounts for such a small percentage of the $275 million being obligated in the first half of the year under the Continuing Resolution and such a large part being carried over into the second half? Is that customary—the way in which you operate—you wait until you get the money before you start negotiating seriously?

Then when you find out what is made available you start trying to consummate these agreements? Is that the way it works?

General WARREN. No, sir. The way it works is that we earmark moneys for a specific country—examples are set forth in our presentation brief based on our contracts with the country officials or other considerations which lead us to believe we will need that money. The

reason we did not obligate more is that we were unable to complete our agreements by 28 January, but there are many being negotiated right now. The policy within the Defense Department is that we go all out and try to complete these agreements as soon as possible, contingent on the availability of funds. We are doing that. Hopefully, when the funds become available, if the Congress approves them, we will be in a position to use this credit money, or portions of it, as soon as we get it.

Mr. PASSMAN. It is my understanding that under your Military Assistance Program you have what we refer to as a "reservation."

General WARREN. Yes.

Mr. PASSMAN. The Defense Department places the order for you and you reserve funds until delivery is made and then you obligate and reimburse Defense at that time. Under this program, it is a question of operating strictly on a day-to-day cash basis, is it not?

General WARREN. Yes, sir.

Mr. PASSMAN. You are not permitted to make reservations for a contract that you hope may materialize?

General WARREN. We make reservations only on our planning papers, sir.

Mr. PASSMAN. You do not reserve money?

General WARREN. No, sir.

Mr. PASSMAN. In other words, it has to be a firm agreement before you can actually obligate the money?

General WARREN. Yes.

Mr. KNAUR. Most of these arrangements culminate in the last half of the fiscal year.

Mr. PASSMAN. I see. Had you had the entire $275 million then you could have utilized it, in all probability, during the last 5 months?

Mr. KNAUR. The last quarter of the fiscal year.

Mr. PASSMAN. I don't know why you have to sack it up in the last quarter. I am willing to agree that you would have had need for it during the last 5 months.

Mr. KNAUR. Yes.

Mr. ALNE. Mr. Chairman, there are two basic things you should understand and people should understand about a military credit program. First, it takes two to make a transaction. We do not do it unilaterally. Second, there is a contingent character to this program. We do not start out at the beginning of a year absolutely dedicated to the proposition that we must spend all the money that the Congress has given to us.

Mr. PASSMAN. I hope that you are not.

Mr. ALNE. Therefore, we develop our cases during the year. It takes a great deal of consultation with State and sometimes with the White House. May I cite a specific example of Iran. We indicated to you that we thought we would need ——— for fiscal 1970 for Iran. Iran indeed expects ——— from us. But there are many developments that must take place. First, we must have an agreement between our two governments on what is called the economic review. The country must be able to handle ——— in credits. Our President looks at that. The Shah looks at it. That economic review never gets completed until about March or April. So that is one thing.

Second, we want to make maximum use of private credit. That takes negotiations with the banks, it also takes extensive negotiation with the country. The fact is the country would prefer to have the Govern-

ment's money and not the private bank's money. We would prefer to have them use a substantial part of the loan from private sources. All of that takes negotiation.

Mr. PASSMAN. I understand that perfectly. But this is an ongoing program; isn't that true, Mr. Secretary?

Mr. CHAPMAN. That is right, sir.

Mr. PASSMAN. You have these applications, many of them, almost firmed up before you even make your request for appropriation. I have never been able to understand why, with an ongoing program where you have a record of knowing about what you are going to get, that you have to hold up so much of this to the last day of the fiscal year or the last month of the fiscal year. All I was trying to establish for the record was why, out of $200 million available to you, you only obligated $70 million during the first 7 months. Then, of course, it would lead to this question:

If the entire appropriation of $275 million had been made, did you have applications pending or received during that period where you could have used the entire $275 million?

General WARREN. Sir, I believe we could have used that entire amount. May I ask Mr. Alne one question?

Mr. PASSMAN. Surely.

General WARREN. How many of these projected arrangements which are listed in the CPD are either nearing completion or, in your opinion, likely to be consummated?

Mr. ALNE. I just checked. There are three in fairly good stages of readiness, Iran at ——— which would be ready in a month if we had congressional authorization to go ahead. Now, Greece may take 2 months, and that is ———.

Mr. PASSMAN. I thought we had slowed down on aid to Greece until it had a more stable government.

Mr. ALNE. We slowed down considerably.

Mr. PASSMAN. Good.

Mr. ALNE. There is only one more, Korea can be ready in about 1 month ———. That would mean we have close to being ready ———.

DISADVANTAGES OF LIMITING FMS TO PRIVATE CREDIT

Mr. PASSMAN. What position would you be placed in, General Warren, if the Congress in its wisdom were to say to you that we would be willing to have a military sales program but you must get all of your funds out of the private sector, and place an absolute limitation on the amount, and then at the end of each year reimburse you 25 percent of the amount for a reserve fund? Do you think you could put special stress on finding sufficient private capital rather than making direct sales with Federal appropriations?

General WARREN. No, sir. I think that it would probably ruin the program because of the interest rates that would prevail. In a number of these arrangements in the past, we attempted to use a proportion of Government credit and credit guarantee, plus commercial credit. The interest rates in such cases average out between the 7.5 Government cost of money and the possible 11 percent charged commercially. But I do not believe we can obtain private credit, even with the Government guarantee, which would provide for our major FMS projects because most of the countries involved are underdeveloped; and neither

the State Department nor we want them committed to something that they cannot afford. I think this proposal certainly has merit, but it would lower the credit sales we want to make by a considerable amount, sir.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

FRAGMENTING OF MAP AND FOREIGN AID

Mr. PASSMAN. Until fairly recently, Laos, Thailand, and Vietnam were a part of the military assistance program, and it was only in the past several years that these three countries were transferred over to the defense budget for the duration, I believe.

General WARREN. That is correct.

Mr. PASSMAN. If we were to actually put together the total cost of our military assistance program, excluding defense, we would have to add those three countries to the total. Would that be correct, sir?

General WARREN. Correct.

Mr. PASSMAN. Thank you. At the time that this committee handled all of the military assistance program, the annual appropriation was quite a bit higher.

General WARREN. Since 1952, where we hit a high of around $6 billion, it has gradually dropped off in an almost straight line to our lowest point which is the $350 million for fiscal years 1970 and 1971.

Mr. PASSMAN. It is the lowest point simply because you have removed nations from the program. I want to know the lowest point before the transfer was made. In other words, this program has been fragmentized. There may be reasons for it and I am not quarreling necessarily with the reasons. I am trying to keep the total before the public. What was the highest level?

General WARREN. It was almost $6 billion in 1952.

Mr. PASSMAN. Under the same program we are operating under now?

General WARREN. Yes, sir.

Mr. PASSMAN. What was the average when the programs for these three nations were transferred to the defense budget?

General WARREN. It was around $1.5 billion because the transfer took place in accordance with Public Law 89–374 in March of 1966, Mr. Chairman.

Mr. PASSMAN. If we go back down to 1957, I think the appropriation was about $2 billion.

General WARREN. Yes.

Mr. PASSMAN. I am trying to get it in the general range so that we will not be accused of being unfair when we pick up these pieces to get the grand total. I am not arguing about the policy. The clerk handed me a list a moment ago showing that the total requests for foreign aid and assistance this year, comparable with the same type of requests last year, all spigots, is about $12,133,525,000 compared with $10.5 billion last year; I do not believe that the President of the United States has looked at that total figure any more than I believe you have. You had not until I mentioned it yesterday, had you?

General WARREN. I had not seen that one. I had developed a list covering military assistance only.

Mr. PASSMAN. I am talking about the grand total of all types of foreign aid and assistance.

General WARREN. I understand.

Mr. PASSMAN. I think, in addition to the present request, that you had several items, such as NATO infrastructures and other programs that are now a part of the defense budget, that were previously carried in this bill? That is in addition to the programs for the three countries I mentioned earlier.

General WARREN. That is correct.

Mr. PASSMAN. Now, you get what I mean when I say the foreign aid program has been fragmentized?

General WARREN. Yes, sir.

Mr. PASSMAN. I think that is a very good word. It is very easy to understand. You could transfer programs out of title I until you get to where you only had $6 left, and they say, "They finally finished foreign aid", but it would then be scattered all through the budget.

SERVICE-FUNDED MILITARY ASSISTANCE PROGRAMS

General WARREN. May I make a comment on the size of the service-funded programs——

Mr. PASSMAN. All right.

General WARREN. Their cost to the Government since they became service-funded is much higher than it was back under map grant aid. They were transferred because of the war, and you do not get a true comparison between the two. The grand total cost to the services of present military assistance to those four countries, including some support of Korean forces in South Vietnam, is———.

Mr. PASSMAN. I am afraid I do understand it better than you think. Of course, the military assistance to these three countries, especially Vietnam, is a very, very small percentage of the total; is that right?

General WARREN. That is right.

Mr. PASSMAN. But we know that the grant-aid program has been fragmentized, not only military but also economic assistance, to where it is a difficult job to put all the pieces back together. I have never, and I shall not ever, try to include our true military expenditures as a part of foreign aid because it is a direct line to the security of this country. I am trying to keep the raw foreign aid, whether it be economic or military assistance, separated from our defense budget as such, because we had a military program going very strong in Korea at the same time we had a military assistance program in Korea, did we not?

General WARREN. Yes, sir.

Mr. PASSMAN. Even though we fought a war there—we may not have won it but we fought it—we had a Defense program as well as the military assistance program. But when you take items out of this bill and scatter them throughout the budget, it is pretty hard to put the pieces back together again.

General WARREN. Sir, our planning contemplates taking those countries back into the regular program following the cessation of hostilities. The main reason they were transferred is that our worldwide military assistance program is not geared to supporting a war situation.

Mr. PASSMAN. I know that. That was McNamara's idea. I know about as much as any man in the Defense Department with respect to that concept.

General WARREN. May I comment on one point?

Mr. PASSMAN. Surely.

SINGLE MAP AND FMS PACKAGE APART FROM ECONOMIC AID

General WARREN. I would like to comment on a point the chairman made. I personally strongly endorse your position that it would be desirable to have the military assistance program and the foreign military sales as a single package separate from the economic aid package.

STATE-DEFENSE COORDINATION OF PROGRAM

Mr. PASSMAN. I believe I would support such legislation. I just do not believe the people in the State Department, as great and as good as they are, know anything about military requirements. Neither do they know too much about using military hardware. They are in the field of diplomacy. I think I understand perfectly well the involvements that we get into. We go into these little underdeveloped countries where they have been used to peashooters and popguns, and they hear about some other country getting sophisticated weapons. Then they call our Ambassador and get a commitment that we are going to give them something else to shoot with. This spreads like wildfire. Despite your great experience and the experience of our very esteemed, very able Secretary of Defense who has certain ideas about our military requirements, you are not able to implement them simply because of the thinking of the State Department. Your heard the interrogation yesterday. He is working with the military experts, he understands their needs, he has a program but he cannot get it approved at this time because you have the so-called soldiers in the State Department who do not agree with his thinking. That is no reflection on the State Department, Mr. Chapman. You are great diplomats, but I do not think much of you as generals.

Mr. CHAPMAN. May I just make one comment?

Mr. PASSMAN. Surely.

Mr. CHAPMAN. Right now I do not know of any substantive issue between Defense and State.

Mr. PASSMAN. Were you here yesterday?

Mr. CHAPMAN. I was.

Mr. PASSMAN. I do not want to quote the distinguished Secretary but I think he stated yesterday that he wanted a supplemental appropriation, and part of that supplemental had to do with certain equipment for certain countries, which the State Department fought last year. You know that, General Warren.

General WARREN. May I comment on that?

Mr. PASSMAN. Surely, but I don't want to put you in the doghouse.

General WARREN. I probably will find myself there anyhow.

Mr. PASSMAN. I know very well that the Secretary of Defense had a very positive position last year but the Secretary of State did not support him.

General WARREN. I do not know the details on that, sir.

Mr. PASSMAN. You do not know the details, but you know the general theme of this interrogation; do you not?

General WARREN. Yes. May I comment with respect to the supplemental?

Mr. PASSMAN. Yes.

BASIS FOR POSSIBLE SUPPLEMENTAL REQUEST

General WARREN. We have not figured out the best time to do it. It might be later because we really do not have the building blocks that we need to develop a really sound and defensible program. This is partially due to the fact that there are a number of NSC studies in the mill on the different countries, and on our commitments. The President's special task group, headed by Mr. Peterson, is also making recommendations. There are a lot of major things such as that which we should soon know more about and which will provide the basis for a sound supplemental, if one is necessary.

Mr. PASSMAN. I am not encouraging one. I hope you don't ask for it, but I know that the Secretary of Defense said he was considering it but he had certain people in the State Department that he had to discuss it with. I do know last year that the Secretary of Defense placed his stamp of approval upon certain equipment for the Republic of China but he did not get the concurrence of the State Department. You are familiar, most of you, with that deal; are you not.

Mr. KNAUR. Yes, sir.

PETERSON REPORT

Mr. SHRIVER. Hasn't the Peterson report been released?

General WARREN. Sir, I believe it is out. I don't think it has been publicly released yet, although there were two press conferences which were reported on in the paper, and these reports did contain some of the highlights of it.

Mr. SHRIVER. Did it go into military assistance?

General WARREN. Yes, sir; it did. The only report I read in the paper that affected the program was reference to the fact that they made some recommendations which would separate the AID program and the Military Assistance Program but I don't know the details.

Mr. PASSMAN. Mainly, the report recommends a multilateral or international organization to handle aid funds, does it not?

General WARREN. Sir, I have not read the report.

Mr. PASSMAN. Isn't that right, Mr. Secretary?

Mr. CHAPMAN. That is right.

DISADVANTAGES OF MULTILATERAL AID

Mr. PASSMAN. These one-worlders and other people have been trying for years and years and years to get foreign aid to where it was unidentifiable. It would be distributed by an international organization so that it would lose its identity and the recipient would not know the donor. Isn't that just exactly what this package would do?

Mr. CHAPMAN. Well, it would broaden the base of the donor countries.

Mr. PASSMAN. It may broaden the base of donor countries, but that is not my question. When you take our aid and mix it up with the others' and let it be disbursed by an international organization, the recipient does not know what the United States is doing for him, does he?

Mr. CHAPMAN. Except you have the Americans involved in these programs.

Mr. PASSMAN. Surely. If you want to be evasive, that is your business, Mr. Secretary. But it follows, nevertheless, if you have 40 nations putting in 40 percent of the money and one nation putting in 60 percent of the money, when you stir it up and start distributing it, the recipients do not have any knowledge of the amount of aid coming from the United States, do they?

Mr. CHAPMAN. That is right, sir.

Mr. PASSMAN. Thank you very much.

That is what they have been saying for years. That is the way they wanted it because it would make it so much easier for the recipients to accept it without embarrassment. I do not know of a bit of embarrassment that we have caused to anybody in distributing $200 billion in 24 years. Do you? Have any of them had to back up with their hands behind them because they were embarrassed to take our money? You do not know anybody who has been embarrassed by having to take what we gave them?

Mr. CHAPMAN. It causes irritation in certain instances.

Mr. PASSMAN. Who does it irritate other than the American taxpayer? It does not irritate the recipient, does it?

Mr. CHAPMAN. I think the objective that is sought——

Mr. PASSMAN. I did not ask you about the objective. I imagine all objectives have some merit. Do you know of any country that has been irritated from having to accept millions of dollars from us?

Mr. CHAPMAN. Put that way; no, sir.

Mr. PASSMAN. Thank you very much.

We will take a brief recess.

(Recess.)

Mr. PASSMAN. Mr. Chapman.

POSSIBLE SUPPLEMENTAL REQUEST

Mr. CHAPMAN. Mr. Chairman, may I make a quick comment on the question of a supplemental? I would like to repeat that between Defense and State there is no difference of views.

Mr. PASSMAN. Are you talking about just today, this one supplemental?

Mr. CHAPMAN. At this time. On the question of a possible supplemental for 1971 we concur with Defense.

Mr. PASSMAN. You mean a supplemental for fiscal 1970? We have not even started fiscal 1971, Mr. Secretary. Are you talking about fiscal 1970?

Mr. CHAPMAN. I was talking about fiscal 1971.

Mr. PASSMAN. We are now considering the regular appropriation for fiscal 1971.

Mr. KNAUR. I believe he means a supplemental authorization.

Mr. PASSMAN. Are you talking about an authorization?

Mr. CHAPMAN. Yes.

Mr. PASSMAN. It could cover any period they want to apply it to. You could ask for a supplemental appropriation for 1970 or for 1971 for the military assistance program if you got an additional authorization.

Mr. CHAPMAN. That is right. State concurs that we probably will need such a supplemental.

BUDGET ESTIMATES, APPROPRIATIONS, AND UNOBLIGATED BALANCES

Mr. PASSMAN. General Warren, would you please update the table which appeared on page 663 of last year's hearings which related to the budget estimates, appropriations, and unobligated balances continued available in subsequent years?

General WARREN. Yes, sir.

(The document follows:)

BUDGET ESTIMATES, APPROPRIATIONS, AND UNOBLIGATED BALANCES

[In millions of dollars]

Fiscal year	Budget estimate	Appropriation	Unobligated balances continued available in subsequent years
1950	$1,314.0	$1,314.0	$213.2
1951	5,178.0	5,222.5	759.7
1952	5,997.7	5,744.0	436.1
1953	4,598.4	4,219.8	1,905.9
1954	3,648.6	3,230.0	2,422.5
1955	1,580.0	1,192.7	33.9
1956	1,442.2	1,022.2	195.5
1957	3,000.0	2,017.5	538.8
1958	1,600.0	1,340.0	21.5
1959	1,800.0	1,515.0	52.1
1960	1,600.0	1,300.0	50.9
1961	2,000.0	1,800.0	58.1
1962	1,885.0	1,600.0	64.2
1963	1,500.2	1,325.0	25.8
1964	1,405.0	1,000.0	4.4
1965	1,055.0	1,055.0	22.2
1966	1,170.0	1,170.0	11.1
1966 supplemental	[1] 375.0	[1] 375.0	
1967	917.0	792.0	11.9
1968	596.0	400.0	5.0
1968 supplemental		100.0	
1969	420.0	375.0	5.1
1970	425.0	350.0	5.0

[1] To liquidate sec. 510 authority utilized in fiscal year 1965 ($75,000,000) and fiscal year 1966 ($300,000,000).
[2] Estimated.

Source: President's budgets, 1970, 1971.

RECOUPMENTS

Mr. PASSMAN. Would you also update the table which appeared on page 664 of last year's hearings, concerning the original estimate of deobligations and the actual by years?

General WARREN. Yes, sir.

(The document follows:)

RECOUPMENTS, ORIGINAL ESTIMATE VERSUS ACTUAL, FISCAL YEAR 1961 THROUGH FISCAL YEAR 1969

[In millions of dollars]

Fiscal year	Original estimate	Actual
1961	$155.8	$120.6
1962	317.7	240.7
1963	204.6	250.0
1964	125.0	124.8
1965	135.0	139.6
1966	78.0	[1] 140.5
1967	100.0	[2] 151.2
1968	65.0	83.6
1969	62.0	68.5
Total	1,243.1	1,319.5
1970	47.9	([3])

[1] Increase of $62,500,000 in fiscal year 1966 recoupments over original estimate mainly due to (a) cancellation of items programed for India and Pakistan ($32,100,000) and European phaseout countries ($8,400,000); (b) correction of duplicate funding in prior years for $14,300,000 of materiel which was furnished to recipients from MAP-owned assets; (c) return for use by the Army of communication equipment initially procured for Indonesia and in a suspended shipment status ($5,400,000).

[2] Increase of $51,200,000 in fiscal year 1967 recoupments over original estimate mainly due to (a) drawdown from prior year undelivered balances for India and Pakistan ($43,000,000); (b) intensified review and screening of prior year programs to purge all possible recoupments ($8,200,000).

[3] Actual not yet available.

PERCENTAGE OF FISCAL YEAR 1971 APPROPRIATION TO BE SPENT IN FISCAL YEAR 1971

Mr. PASSMAN. Also please estimate how much of your request for new budget authority for fiscal 1971 will be spent in fiscal 1971, and how much will be spent in future years if the total request is approved?

General WARREN. Yes, sir.

(The information follows:)

Fiscal year 1971 NOA spent in fiscal year 1971

[In millions]

Fiscal year 1971 NOA spent in fiscal year 1971	$126.0
Fiscal year 1971 NOA spent in subsequent years	224.0
NOA	350.0

MILITARY PROCUREMENT LEADTIME

Mr. PASSMAN. I believe that under your arrangement with Defense, they place the contract and furnish you an estimate against which you reserve funds. At some subsequent date when deliveries are made then they debit your account?

General WARREN. The MAP account; yes, sir.

Mr. PASSMAN. The MAP sales account. Of course, the amount that will be carried into subsequent years will depend entirely upon the leadtime on these different items, will it not?

General WARREN. That is correct.

Mr. PASSMAN. What is the average leadtime of your military procurement?

General WARREN. For aircraft it is 18 months to 2 years. In the case of some aircraft, it would depend, however, on the purpose for which they are procured. In Southeast Asia, the United States forces have the priority; for our foreign assistance purpose it could run more than two years because of such priorities.

Mr. PASSMAN. If you would place in the record something on an average time for small arms, ammunition, tanks, aircraft, the average leadtime.

General WARREN. Yes, sir.

(The information follows:)

Item:	Average leadtime
Small arms	6–12 months
Ammunition	6–24 months
Tanks	12–24 months
Aircraft	18–36 months

Average leadtimes cited above include administrative and manufacturing leadtime and assume the item is in production or available for repair and rehabilitation.

Mr. PASSMAN. I believe the average leadtime is about 18 months, is it not?

General WARREN. It is, on the larger items. On tanks and trucks, unless Southeast Asia priorities intervene, it is about a year.

FISCAL YEAR 1971 MAP-RECIPIENT COUNTRIES

Mr. PASSMAN. General Warren, please place a list in the record of the 47 countries which will be receiving some type of military assistance in fiscal year 1971, indicating the countries which will receive materiel or training, or both.

General WARREN. I have it here.

(The document follows:)

COUNTRIES TO RECEIVE FISCAL YEAR 1971 GRANT AID

Number of countries to receive fiscal year 1971 grant aid are as follows—

23 countries to receive materiel and training: China, Indonesia, Korea, Philippines, Greece, Turkey, Congo, Ethiopia, Liberia, Tunisia, Portugal, Spain, Bolivia, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras Nicaragua, Panama, Paraguay, Uruguay.

24 countries to receive training only: ———, Malaysia, Afghanistan, Ceylon, India, Iran, Jordan, Lebanon, Nepal, Pakistan, Saudi Arabia, Ghana, Libya, Morocco, Senegal, Austria, ———, Argentina, Brazil, Chile, Mexico, Peru, Venezuela, Nigeria.

Mr. PASSMAN. Do you plan dropping any military assistance countries in fiscal 1970?

General WARREN. In fiscal year 1970 we are dropping one small program. We are dropping Guinea from Conus training only which we had in the 1969 program.

Mr. PASSMAN. Guinea is dropped. You have no training or materiel going into that nation. It is just completely dropped as a military assistance nation; is that correct?

General WARREN. That is correct.

Mr. PASSMAN. Are you adding any new countries to the military assistance program?

General WARREN. Sir, we are changing a training category for two countries.

We are adding overseas training for Mexico and Malaysia, for 1971, which formerly were continental United States training only.

Mr. PASSMAN. I don't care whether it is continental training or what have you; as long as it is costing American dollars. How many

nations will you have a military assistance program going in in fiscal 1971 under your present plans?

General WARREN. Forty-seven.

Mr. PASSMAN. How many did you have last year?

General WARREN. We had 48.

Mr. PASSMAN. You have dropped one and changed two?

General WARREN. Yes.

TRAINING PROGRAM FOR NIGERIA

Mr. PASSMAN. You have named the one which you dropped. What countries are you adding?

General WARREN. We are reinstituting a small training program for Nigeria.

Mr. PASSMAN. Nigeria? Is that new?

General WARREN. We had a military assistance program for Nigeria up until the time the recent war started. At that time we suspended military assistance, including training, except for four students who were in college last year under an agreement made some 2 years ago that the United States would pay half of the cost and Nigeria the other half. We allocated no new money to Nigeria during the last 2 years. I might ask Mr. Chapman if he would care to comment on Nigeria.

Mr. PASSMAN. If he wants to comment we will take the time to hear him. First, this request came up through the State Department, did it not, Mr. Secretary?

Mr. CHAPMAN. Yes, sir.

Mr. PASSMAN. Why?

Mr. CHAPMAN. Because Nigeria is one of the major African countries, because its present government remains oriented to the West and has had very good relations with the United States. The civil war has ended and we would like to help the country bind its wounds.

Mr. PASSMAN. Help them with guns and bullets?

Mr. CHAPMAN. No, sir. They have asked us informally whether we might help them to use their army in civic action, engineering projects.

Mr. PASSMAN. Who is the ambassador to Nigeria?

Mr. CHAPMAN. I am sorry, I do not recall who it is right now.

Mr. PASSMAN. Has he had prior military experience?

Mr. CHAPMAN. I do not know. I am sorry. I cannot remember who it is. We will furnish it.

Mr. PASSMAN. I can understand the need for military sales where countries are determined that they are going to buy military equipment. But to have our State Department peddling this idea that you must start a military assistance program, I don't mind telling you, it irks me. This program will never be brought under control as long as you people are thin skinned and let these little, new, emerging nations, who can't even feed themselves, get started on building up a military complex. It is not very conducive to peace and quiet in the world.

Mr. LONG. I want to applaud the chairman for that statement.

Mr. PASSMAN. It is just absolutely frightening to think that we are letting the State Department get involved in military affairs and recommend that we arm these little nations that are still wet behind the ears. From little acorns big trees grow. You give them one gun and they will find the need for three more.

Mr. CHAPMAN. We have not recommended providing materiel or other types of equipment.

Mr. PASSMAN. But you are going to train them,are you not?

Mr. CHAPMAN. To help them strengthen——

Mr. PASSMAN. What are they going to shoot with?

Mr. KNAUR. These are strictly civic action programs, sir.

Mr. CHAPMAN. Civic action.

Mr. PASSMAN. What are they going to use? Sticks? It is a military assistance program.

Mr. KNAUR. It is civic action which encourages and teaches the use of the military for building of roads and schools and deep wells, and so forth.

Mr. PASSMAN. Why don't you leave the military out of it and train the civilians as to how to build roads, schools and deep wells? Why do you have to mix it up with the military? You can't tell me that you can have a military program that is dealing entirely and completely with civil programs. As we have established before, training programs usually lead to materiel programs.

Mr. LONG. To reenforce what the chairman has said, I have had men in military missions in some of these countries tell me privately that they do not believe that they belong there; they do not have a legitimate mission and that they should be brought out of there.

Mr. PASSMAN. I want to thank the doctor for his contribution. I admire what you people do but the State Department has no business getting these little nations involved in our military assistance program.

Mr. KNAUR. May I say for the record that the Ambassador to Nigeria is William C. Trueheart.

Mr. PASSMAN. He has a very nice name, doesn't he?

Mr. COHELAN. I would like to hear some response to the remarks made by the chairman and Mr. Long. How do we defend this?

Mr. CHAPMAN. Following the civil war, the army is swollen and if it is to be reduced drastically and immediately it will create very severe unemployment problems which will add to the present confusion. There is an army in being, they have material, and we would hope by a very limited training program to help them use that equipment in order to reconstruct the country. Aside from the fact that Nigeria is a major African country, we have $200 million in American investments in the country.

Mr. COHELAN. I was thinking more broadly in the terms of Mr. Long and the chairman. For example, Costa Rica and others, we could select them out of that array. Mr. Long's statement was that he had testimony by our own people to the effect that we should not be there, that we are a burden. What do you say to that?

Mr. CHAPMAN. I don't believe that has been said in Nigeria. In Latin America we are cutting back very, very sharply.

Mr. LONG. In response to pressure, I might point out. You know we have a military mission in a country that has no armed force at all. I asked what we were doing down there. I was told that we are trying to sell American weapons to these countries. In other words, we are trying to create an appetite for weapons. Then the country next door gets scared and they put pressure on. The germ is contagious. We are acting

as if we are only doing this because of unrest in a certain part of the world. Actually we are a major creator of unrest in much of the world, in my opinion; especially in Latin America. I think we were a major creator of unrest in Pakistan and India and plenty of other places.

Mr. PASSMAN. I support the views of the gentleman from Maryland.

Let's see if we cannot establish something for the record, Mr. Secretary. Nigeria just came out of a bloody Civil war; did it not?

Mr. CHAPMAN. That is right.

Mr. PASSMAN. They destroyed an emerging nation known as Biafra. Did we become involved in the conflict in any way?

Mr. CHAPMAN. We did not provide any arms to either side.

Mr. PASSMAN. That is a good enough answer. They must have had some military advisers from somewhere, from within or without, in order to be able to prosecute that war; did they not?

Mr. CHAPMAN. They had Russian equipment and they had some Egyptian pilots, I believe, but I do not know whether they had any foreign advisers.

Mr. PASSMAN. What did the ground troops fight with?

Mr. CHAPMAN. They had equipment principally provided by the British, before.

Mr. PASSMAN. Then why was it necessary for Uncle Sam, even before the smoke settled, to recommend through a civilian ambassador that we start some kind of military training program in Nigeria? Just what kind of military personnel are you going to have there, Mr. Secretary, since this is a Department of State army? How many personnel?

Mr. CHAPMAN. It has not been discussed yet. We just have an attaché, I believe.

Mr. PASSMAN. What are you requesting for Nigeria?

Mr. CHAPMAN. There is no proposal to send a mission there.

Mr. PASSMAN. You have already indicated, or the general did, that you are going to start a military training program in Nigeria. Now, I want to know what do you propose to furnish for Nigeria in the way of cash, first.

General WARREN. ——— is earmarked for training only. It will be mostly nonmilitary-type training with emphasis on engineering and various other skills which would help Nigeria.

Mr. PASSMAN. Couldn't they obtain civilian personnel inasmuch as the program has no relationship to the military? Why did they have to come to us?

General WARREN. Sir, I cannot answer. I must defer to State.

Mr. PASSMAN. I know, General, that this is a State Department deal. I am trying to ascertain first: Have you allocated any money to Nigeria out of your 1970 appropriation?

General WARREN. When our Congressional Presentation Document went to press last week, there was no approved program for Nigeria in 1971. For this reason I mentioned in the last part of my statement that we proposed to allocate ——— for training for Nigeria.

Mr. PASSMAN. Have you allocated any funds out of the fiscal 1970 appropriation?

General WARREN. Yes, sir; ———.

Mr. PASSMAN. Now, out of this ——— we would like to know what you are going to spend it for.

General WARREN. It would be primarily for training.

Mr. PASSMAN. Training them to do exactly what?

General WARREN. The training would be primarily for civic action.

Mr. PASSMAN. I know. Specifically, what are you going to train them to do?

General WARREN. Sir, I don't know.

Mr. PASSMAN. Where can we get that information?

General WARREN. I will submit it for the record.

(The information follows:)

POSSIBLE AREAS OF TRAINING FOR NIGERIA

The MAP training planned in fiscal year 1971 for Nigeria would be primarily in support of civic action in such areas as construction, communications, health and transportation. This would entail associated training, such as: project planning and supervision; engineer pioneering; surveying; drafting; soils analysis; employment, operation and maintenance of various construction equipments and vehicles; radio telephone, and teletype system design, operation, and maintenance; preventive medicine; medical aid and laboratory procedures; dental laboratory procedures; several medical specialties; supply management; carpentry; welding machinist; and various vehicular maintenance and repair specialties.

Mr. PASSMAN. That is good. We may just write this program out of the bill and some day you will appreciate the protection that we are offering to give you. It just doesn't make sense, as Dr. Long says. You whet their appetites, you give it to one and the next country wants it and the first thing you know we are going to unintentionally kick off a worldwide war by whetting their appetite to fight wars. I should think they would need bread and butter a lot worse than they would be needing military training.

Mr. CHAPMAN. In civilian skills, sir.

Mr. PASSMAN. Then you don't need the military to do it, Mr. Secretary. This is something you ought to take up with AID. Why do you want to put it in military? The military have a very small percentage of the total engineers available in America. What kind of an engineer are you talking about? You have a thousand different types of engineers. What are they going to engineer?

Mr. CHAPMAN. In the present situation in Nigeria the army is the only organized unit where you have the manpower and the organization to carry out these civilian type programs.

Mr. PASSMAN. We want to know what they are going to engineer.

Mr. CHAPMAN. Mainly roads and rebuilding bridges.

Mr. PASSMAN. Could you not do that with civilians? Why does the military have to get into it? Military men usually talk about and use military equipment.

Mr. CHAPMAN. They are there and organized. It is just like our engineers in this country have a major responsibility for carrying out the civilian type projects.

Mr. PASSMAN. Do you know of any project—past, present or planned—that you have not started one or more of those projects under the AID program? Shouldn't this be a field that you should get civilians into rather than military people?

Mr. CHAPMAN. I would certainly hope we would move in that direction.

Mr. PASSMAN. Then you have no business starting it. I hope the committee will write it out of the bill. I do want you to place in the record just how you propose to spend the ——— because I hope you people are not pulling these figures out of the air. You had to have some kind of a tentative program in order to be able to place a dollar sign on it, did you not, General Warren?

General WARREN. At the time we went to press, we did not have one. The State Department recommended it. The Secretary of Defense concurred in the State recommendations. I don't know what the training spaces are as yet, sir.

Mr. PASSMAN. I should say that you are bound to have some discussion as to the need for the ———. So much for this engineer, so much for that one, or you never could have come up with a figure, could you?

Mr. CHAPMAN. It is a contingent figure.

Mr. PASSMAN. It may be, but you did not just pull it out of the air. You had to have some discussion about what it would be spent for in order to arrive at the ———.

Mr. CHAPMAN. I think it is based on prior experience.

Mr. PASSMAN. Prior experience? Is that the way you operate? Just pull figures out of the air and put them in the budget? I want your work papers on this item. That is not asking too much, it is?

Mr. CHAPMAN. This is something developed very recently.

Mr. PASSMAN. You had to develop it from work papers. These things just do not develop because some guy said "Put in ———." We are entitled to see the worksheets on this. May we see them if they are available?

Mr. CHAPMAN. We will provide it for the record.

(The information follows:)

BASIS FOR FISCAL YEAR 1971 NIGERIA MAP REQUEST

Both the fiscal year 1969 and 1970 congressional presentation documents included anticipatory provisions for reconstituting input into the Nigerian MAP training program once the conflict there was resolved. In late January 1970, the Chief Engineer of the Nigerian Army—who is to be in charge of the Army's civic action work in the reconstruction program—expressed strong interest in U.S. training to support civic action. On 9 March, the Nigerian Ministry of Defense formally inquired about U.S. training spaces during calendar years 1970 and 1971.

Although not formalized, a program comprising 50 students for fiscal year 1970, which represents a sizeable reduction from prewar years, appeared a sound contingency plan and responsive to the Nigerian request for training courses which support civic action programs. Assisting the Nigerian Government in rehabilitating its war-torn country is desirable for both near term and long term U.S. interests. The ——— was based on average experience factors as the costs of each individual course vary.

General WARREN. I will submit for the record the training courses we propose when they are decided upon.

(The information follows:)

REPRESENTATIVE CIVIC ACTION TRAINING COURSES

The specific training courses which would be provided in support of Nigeria's planned civic action program have not yet been determined. They would be a function of the types of projects and their priorities which the Nigerians might establish, the availability of qualified students who meet the particular course prerequisites, and availability of student quotas. A representative listing of training courses which would contribute to anticipated types of civic action projects follows:

Course	Type of students [1]	Course length in weeks	Purpose of course
Construction planning and operations.	(O)	3	To provide working knowledge of selected construction factors and considerations; design and construction of roads and air fields; project management, equipment capabilities, and other engineering topics.
Telephone and teletype officer.	(O)	14	To provide working knowledge of the supervision, management, planning, installation, operation and maintenance of telephone, teletypewriters, and carrier facilities, equipment, and systems.
Radio systems officer	(O)	16	To provide working knowledge of planning, directing, and supervising the installations, operation and maintenance of radio systems.
Engineer equipment repair technician.	(W–E)	10	To provide working knowledge of engineer equipment repairs.
Organizational maintenance officer.	(O–W)	8	To provide working knowledge of the maintenance of organizational equipment.
Engineer equipment officer.	(O)	5	To provide working knowledge of planning and supervising the effective use of engineer equipment and maintenance thereof.
Civic action	(O–W)	5	To provide working knowledge in planning, programing, and administering military civic action programs and activities.
Preventive medicine orientation.	(O)	6	To provide basic working knowledge of preventive medicine and environmental control functions.
Supply management officer.	(O–W)	9	To provide working knowledge of policies, principles, and procedures applicable to all types of supplies.
Pioneer	(E)	8	To train in basic engineer tasks such as rigging, construction, maintenance of roads, and care and use of hand and power tools, etc.
Radio wave propagation	(E)	29	To provide working knowledge of the techniques required to install, operate, and perform field maintenance on radio frequency hazards and measuring equipment.
Field radio repair	(E)	15	To provide working knowledge of maintenance of radios and associated equipment.
Medical corpsman	(E)	10	To train in routine patient care and treatment duties.
Medical laboratory procedures	(E)	14	To provide working knowledge of basic techniques and principles of medical laboratory procedures.
Preventive medicine procedures.	(E)	8	To provide general knowledge of the basic principles of military preventive medicine.
Construction surveying	(E)	9	To provide working knowledge in fundamentals of plane surveying.
Construction drafting	(E)	9	To provide working knowledge in preparation of working drawings, building drawings, construction charts, etc.
Soils analysis	(E)	7	To provide working knowledge of the testing of soils, concrete, and allied construction materials for use in design, control, and evaluation of roads, airfields, etc.
Wheel vehicle mechanic	(E)	7	To train to perform organizational maintenance and assist in repair of automotive vehicles and associated equipment.
Engineer equipment maintenance.	(E)	11	To provide working knowledge to perform organizational maintenance and engineer construction and support type equipment.
Gas turbine generator repairman.	(E)	12	To provide working knowledge of maintenance and control of generators and engines.
Operator—various types	(E)	7.8	To train in operation and maintenance of various types of specialized construction equipment.
Dental laboratory procedures.	(E)	16	To provide enlisted personnel with a working knowledge of the basic principles in dental laboratory techniques.
Carpenter	(E)	7	To train qualified enlisted personnel to perform general carpentry duties in fabrication, erection, and maintenance of wooden structures.
Welding	(E)	11	To provide enlisted personnel with a working knowledge to fuse ferrous and nonferrous metal parts using oxyacetylene or arc welding equipment to include inert gas welding.

[1] O—officer; W—warrant officer; E—enlisted men.

Mr. PASSMAN. I know you will do that. You will cooperate beautifully, and so will the distinguished Secretary. But let's don't get away from these worksheets. I want to see how you arrived at that figure. You are asking the Congress to appropriate ——— for Nigeria, are you not?

Mr. CHAPMAN. Yes.

Mr. PASSMAN. We want to see your worksheets and see exactly what it covers. Is that a reasonable request?

Mr. CHAPMAN. Yes, sir.

DEVELOPMENT OF CIVILIAN RATHER THAN MILITARY CAPABILITIES

Mr. LONG. In order to reenforce the chairman's statement, in all these countries what we should be trying to do is to develop a civilian mentality, a whole set of civilian institutions so that we can get some political stability. Instead of this we are building up the power and prestige of the military. I know we are arguing that these are often the only intelligent, responsible people around but we are increasing a development which I think in the long run has been very bad. We are not trying to create long run forces that will create political and social stability in these countries.

Now, I may be naive but I think military people are trained to fight and wherever you are emphasizing the military you are going to be creating or putting a great deal of emphasis on fighting in one way or another. The projects that will be encouraged, the kind of people who will be powerful in the country are people who are interested in fighting because of this very training that they have. That is their job. I don't blame them for it. A man who is in the military and is not trained to fight and is not interested in fighting probably does not belong in the military, but I think we make a mistake when we foster and encourage these developments instead of putting our weight the other way.

I wish we could get away from this military kick that we are on in all these countries. We are in countries in which we have always tried to emphasize civilian rule, civilian domination, works of peace rather than of war, and yet all over the world we are performing as merchants of death in one way or another. For example, the Argentine. We are selling the Argentine, a bully nation, planes for their aircraft carriers, or were making sales of planes to Libya where there is already a pot that is badly stirred up, or promoting armed rivalries between Peru and Chile, between Pakistan and India.

Now, I can understand, where we are up against Communists as in East Asia, that of course we have got to go along with this. But when you have a part of the world where the number of Communists, even by a strained interpretation, is minimal, I think we are doing damage rather than good. We are developing a grievance, we are making a lot of people feel that America is on the side of war, of military domination. I do not think we are. But that is the impression we are creating.

Mr. PASSMAN. I want to thank the distinguished gentleman from Maryland for his remarks. They are very appropriate.

As I said earlier, I support our military assistance program and shall continue supporting it until the shooting stops in Vietnam. But that is not so all-inclusive that it embraces all these little countries in which we have these small grant aid programs. I am talking about the major powers in the Far East where the shooting is going on. I would vote out Latin America as far as grant aid is concerned. This has no connection with military sales. This is strictly grant aid, is it not?

General WARREN. That is correct.

Mr. CHAPMAN. That is correct.

Mr. PASSMAN. I certainly want you to be under the impression that I do not support this proposal. I support military assistance to those nations where it is vital to the security of the United States. Certainly this program is not vital to the security of the United States.

When did the war between Biafra and Nigeria cease?

Mr. CHAPMAN. December, I believe.

General WARREN. I forget the date. I think it was November or December.

Mr. CHAPMAN. December.

Mr. PASSMAN. You say December?

Mr. CHAPMAN. Yes, I believe so.

Mr. PASSMAN. Let us state for the record that the war between Nigeria and Biafra ceased about 90 days ago; is that right?

Mr. CHAPMAN. Yes, sir.

Mr. PASSMAN. It would have been so very recent that this ——— could not be included and printed in your regular justifications; is that correct?

Mr. CHAPMAN. That is correct.

Mr. PASSMAN. Now, that makes the record even worse. The smoke is still settling on a war that was concluded less than 90 days ago ——

Mr. KNAUR. On January 15, to be exact.

Mr. PASSMAN. Less than 60 days ago the war ceased between Nigeria and Biafra. You couldn't get the program in your justifications. Yet before the smokes settles you are asking for ——— with a label of military on it, with a label of grant aid.

PROPOSED CONTE-LONG EXEMPTIONS

General Warren, again this year the budget proposes to exempt Greece, Turkey, the Republic of China, the Philippines and Korea from the provisions of the so-called Passman-Conte-Long amendment. That is true; is it not?

General WARREN. Yes, sir.

Mr. PASSMAN. Would you please tell the committee what sophisticated weapon systems, if any, have been provided to these five countries since you appeared before the committee last year?

General WARREN. For the record, sir.

(The classified information was furnished to the committee.)

Mr. PASSMAN. Has there been any Presidential determination to date this year which would have exempted other countries from this provision?

Off the record.

(Discussion off the record.)

SOPHISTICATED WEAPONS PURCHASES BY LESS-DEVELOPED COUNTRIES

Mr. PASSMAN. Since the United States cannot supply sophisticated weapons systems to underdeveloped countries, excluding the five previously mentioned, unless the President shall so determine, some of these underdeveloped countries will purchase and have purchased sophisticated weapons systems from other sources; is that correct?

General WARREN. That is correct.

Mr. PASSMAN. Would you provide a list of these underdeveloped countries which are purchasing or have purchased sophisticated weap-

ons systems in each of the past 3 years from sources other than the United States, and also tell the committee from what sources the purchases are being made and furnish for the committee how much military and economic aid these countries receive from the United States or did receive during the same period and what reductions, if any, were made in the United States economic aid program.

General WARREN. I will supply that.

(The information will be furnished to the committee.)

MAP MATERIEL AND TRAINING PROGRAMS

Mr. PASSMAN. I want to take a very positive position at this point—and there is no conflict between my views and those of Dr. Long other than on the economics. We had many discussions in prior years with the former Secretary of Defense, Mr. McNamara, about military materiel and military training programs in nations. Even though he made the categorical statement that training nations did not develop into military hardware nations, the record did not support his conclusions. There were many nations in which we started a training program which subsequently developed into materiel programs. Of the 47 nations that we plan to furnish grant aid to in fiscal 1971, how many of those are training only?

General WARREN. There are 12 that are training only——

Mr. PASSMAN. Subtract that from the 47 and that means 35 are materiel nations?

General WARREN (continuing). Plus 12 for which we propose continental United States training only. We carry them separately because of the legislative restriction which limits to 40 the number of countries receiving grant aid other than training in the continental United States. This CONUS only training does not count against that ceiling.

Mr. PASSMAN. So if you have a military assistance program going in Nigeria with our personnel in Nigeria they are counted as one of the 40 nations where you have a military program but if you bring those Nigerian personnel to the United States for training they are excluded; is that correct?

Mr. KNAUR. That is correct.

General WARREN. That is correct.

Mr. PASSMAN. What a gimmick.

Mr. KNAUR. If I may say so, it is the so-called Mundt amendment which set forth that provision.

Mr. PASSMAN. I know, that was done on the Hill. I know you people would not dare think of such a thing. You just implement the policy.

General WARREN. There are 23 countries for which materiel and training are proposed. If you subtract the top seven countries, there are none that have a grant aid program above $5 million.

Mr. PASSMAN. What does that mean? To me, $5 million is a lot of money.

General WARREN. Yes, sir; $5 million is a lot of money. I was trying to make the point that the remaining 40 countries are scheduled to receive only something like $33 million. We are dividing a very small pot among 40 nations. Those top seven programs represent around 85 percent of the total.

Mr. PASSMAN. Did you ever hear the story about—from little acorns big trees grow?

General WARREN. Yes, sir.

Mr. PASSMAN. I don't know if that makes it any better, just because you are spreading the pot a little thinner. We are still dealing with military equipment and military personnel.

Now of the 23 that you are providing materiel to, how many of the 23 were previously military training only countries?

General WARREN. Those that are to receive only training in 1971?

Mr. PASSMAN. No. Of the 23 countries who are today receiving materiel, how many of those previously received training only?

General WARREN. Those particular 23, sir, are the same 23 we had in the fiscal 1970 program.

Mr. PASSMAN. You may have to go back 5 years in order to research the question.

General WARREN. Yes, I will.

Mr. PASSMAN. There are some, are there not?

General WARREN. No, sir.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

MILITARY PURCHASES BY COUNTRIES RECEIVING U.S. ECONOMIC AID

Mr. PASSMAN. As we think in terms of developed nations or industrialized nations, the manufacture and sale of military equipment has become a profitable venture for them, has it not?

General WARREN. Yes, sir.

Mr. PASSMAN. To many it is considered a commodity that is manufactured and sold as a profit to the country making the sale.

General WARREN. Correct.

Mr. PASSMAN. Many of our so-called underdeveloped nations are determined on maintaining a substantial military posture, are they not?

General WARREN. Yes, they are.

Mr. PASSMAN. If we refuse to sell them military equipment, the record shows that they will buy that military equipment from other countries; is that correct?

General WARREN. Correct.

Mr. PASSMAN. In those countries, if we have a large economic aid program, it means at least indirectly we are using U.S. dollars to pay for military equipment purchased from some other country; is that correct?

General WARREN. I would like to defer to State Department on that.

Mr. PASSMAN. All right. I will ask the State Department that question. If you have a large grant economic aid program in some of the so-called underdeveloped countries and they are purchasing military equipment from other countries of the world, indirectly our dollars are paying for the equipment that they purchase from other countries, is it not?

Mr. CHAPMAN. There is not a 1-to-1 relationship, sir.

Mr. PASSMAN. I will ask the question this way: Is it your understanding that many of the recipient nations of our economic aid are determined to have a substantial military posture in their country? I believe you answered in the affirmative.

General WARREN. Yes.

Mr. PASSMAN. Now, if they earn convertible currencies from their exports and they use that to pay for the military equipment they buy from other countries, then our economic aid fills up that vacuum created by their using their own resources to pay for equipment, does it not?

Mr. CHAPMAN. Sir, a great deal of the economic aid goes to build up better schools, better health services, and so forth.

Mr. PASSMAN. And if they did not get our aid and had their own resources, then they would build those schools out of their own resources, would they not?

Mr. CHAPMAN. They would not be able to build, to make much progress in those fields and they would continue to allocate the same funds to their defense needs.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. You know very well if you have a large economic aid program going in country B, pouring in hundreds of millions of dollars of economic aid and country B takes out of its exports sufficient earnings or sufficient money to pay for military equipment, our AID dollars are filling that vacuum that country B created when it used its resources to pay for equipment he bought from country A. Can you see it any other way?

Mr. CHAPMAN. I think you can see it another way; if you cannot——

Mr. PASSMAN. If you can't see it any other way——

Mr. CHAPMAN. I say you can see it another way, sir.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

THIRD COUNTRY SALES TO LATIN AMERICAN AID RECIPIENTS

Mr. PASSMAN. Let us take Brazil and make the case, Mr. Secretary. Do we have an economic aid program going on in Brazil?

Mr. CHAPMAN. Yes, sir.

Mr. PASSMAN. What has been the total aid to Brazil?

General WARREN. Total military assistance to Brazil has been $221 million.

Mr. PASSMAN. How about the economic aid?

General WARREN. Cumulative economic aid during the period 1946–1968 was $3.4 billion.

Mr. LONG. Is that loans or grants, or just grants?

Mr. PASSMAN. A mixture.

General WARREN. Knowledgeable of the details of the economic aid program.

Mr. PASSMAN. It is a mixture.

Mr. KNAUR. It is a mixture.

Mr. PASSMAN. Is Brazil buying any military equipment from any other nation?

General WARREN. Yes, she is.

Mr. PASSMAN. Who is she buying from?

General WARREN. Belgium, Canada, France, Japan, Netherlands, and United Kingdom.

Mr. PASSMAN. They are buying from at least six other foreign countries, are they not?

General WARREN. Small amounts, yes.

Mr. PASSMAN. We have had a $3 billion aid program going in that country.

General WARREN. That is correct, sir.

Mr. PASSMAN. All right. Now, if we had not had an aid program in that country would she have been able to have purchased this equipment from these six other countries?

General WARREN. Sir, I am not in a position to answer that.

Mr. PASSMAN. If you have an economic aid program going that picks up the check for the necessities of life, that releases to them from their export earnings money to buy military equipment from our competitors. Now, if that is not so, you do not need the military sales program and I think the committee ought to kill it. I am trying to establish for the record and I want it to be factual, that these people are going to buy military equipment inasmuch as we have helped whet their appetites for it. It doesn't make a bit of difference to them what we say. They are still going to buy it.

Here is an article from UPI:

British missile frigates for Argentina, French supersonic jet fighters for Peru, West German mine sweepers for Brazil. European arms dealers are selling their wares to Latin America in increasing quantities and they have the United States to thank.

Is that correct?

General WARREN. Yes, that is correct.

Mr. PASSMAN. We have an economic aid going in those same countries, do we not?

Mr. CHAPMAN. That is correct, sir.

Mr. PASSMAN. A very substantial aid program going?

Mr. CHAPMAN. That is correct.

Mr. PASSMAN. Much of it is grant aid; is that correct?

Mr. CHAPMAN. I believe loans, sir.

Mr. PASSMAN. A lot of it is grant aid. It is grant aid of various kinds. They can pull it out of all spigots.

Mr. LONG. To reenforce your point, Mr. Chairman, we are reaching the point, by the testimony of our own recent reports—Rockefeller report and others—whereby the debt which these countries owe to the United States has gotten so great that the debt burden has now become almost equal or approaching the amount of the money we are putting into the countries. Let's not make any mistake about it, the time is going to come when these loans are going to turn into gifts because they are not going to be able to pay them back.

Mr. PASSMAN. And most of the loans are 46 percent subsidy now.

Mr. LONG. Right. And they are going to turn out to be 100 percent gifts sooner or later.

Mr. PASSMAN. I think that is correct. The point I am trying to make is if we are determined to have an aid program going in these countries, an economic aid program, and we are willing or we cannot do anything about preventing these people from using their own resources to buy expensive arms, sophisticated equipment from other nations, then it would behoove us in all probability to work out a less expensive program and try to contain it in this hemisphere. It is a foregone conclusion if I pick up all your checks down at the filling station, the barber shops, the drugstore, the grocery stores, and pay your rent, it leaves to you your check to do whatever you please, doesn't it? Isn't it just that simple?

Mr. CHAPMAN. Put that way, yes, sir.

Mr. PASSMAN. So if you are paying for everything they need to maintain a reasonably strong economy they can say "Well, Uncle Sam won't cut us off." We have all kinds of amendments to prevent it but he has not exercised his right. So since they are a little slow in making sales, let us go buy them from the six nations which you read into the record.

Now, we go a little bit further—

European arms dealers are selling their wares to Latin America in increasing quantities. The U.S. reluctance to sell advance weapons south of the border along with Latin fears of American strings attached to arms purchases have opened the door for Europeans to move in and set up shop.

How much of that can be discounted?

General WARREN. I think it is probably true in the long run.

Mr. PASSMAN. To proceed, then:

Argentina is a case in point. The Army decided in the mid-1960's that it was time to replace some of its 200 American-built Sherman tanks of World War II vintage. The generals handed Washington a shopping list for 60 M–41 Walker Bulldogs, but were turned down because of the U.S. reaction to the 1966 military coup which brought President Juan Carlos Ongania to power. The Army eventually wound up filling the order with French AMX–13 tanks under a contract which provides for partial manufacture in Argentina. The first of the tanks began arriving in Buenos Aires in 1969.

Is that correct?

General WARREN. I have the figures on that country, if you wish, and also on the others.

Mr. PASSMAN. Is it correct that we did refuse, and they did go buy tanks elsewhere?

Mr. CHAPMAN. That is correct.

Mr. PASSMAN. Did we continue our economic grant aid program during that time?

Mr. CHAPMAN. Yes; gradually phased down.

Mr. PASSMAN. I am not talking about phasing down. It could phase up. We did continue every year the economic aid program?

Mr. CHAPMAN. Yes; technical assistance, I believe.

Mr. PASSMAN. Let us continue:

U.S. arms policy since the early 1960's enunciated in a hodgepodge of 15 congressional amendments has aimed at avoiding an arms race by keeping "sophisticated" weapons out of developing countries except when important to America's security.

We did not keep sophisticated weapons out, did we? Aren't they buying them elsewhere?

General WARREN. Yes, sir.

Mr. PASSMAN. Now let us proceed:

Particularly annoying to the generals is a U.S. ban on selling arms to military regimes—which govern 60 percent of the people in Latin America—unless "important" to the security of the United tSates. But, in fact, U.S. attempts to keep Latin Americans from stepping up military expenditures have apparently had little impact on Latin America itself.

Does that sound like a statement of fact?

General WARREN. I have not seen that article but I can give you the figures.

Mr. PASSMAN. Does this sound like it is coming from the record about like it is?

Mr. CHAPMAN. That is about right, sir.

Mr. PASSMAN. Then why don't you people overhaul your foreign policy before we become the laughingstock of the rest of the world? We say we want to do certain things. It has no effect on what we do. Off the record.

(Discussion off the record.)

CIVIC ACTION PROGRAMS

Mr. PASSMAN. General, would you submit for the record an updated table on your civic action programs similar to the one which appeared on page 697 of last year's hearings?

(The table follows:)

U.S. MILITARY ASSISTANCE FUNDS FOR CIVIC ACTION PROGRAMS, FISCAL YEARS 1962-70[1]

[In thousands of dollars]

	Fiscal years				
	1962-66	1967	1968	1969	1970
Latin America:					
Argentina	1,652	444	16	16	12
Bolivia	2,468	322	75	24	29
Brazil	11,030	170		59	7
Chile	5,137	424	95	29	21
Colombia	4,061	1,146	374	47	100
Costa Rica	26				
Dominican Republic	812	144	91	52	22
Ecuador	2,839	137	21	95	74
El Salvador	806	19	15	4	
Guatemala	1,766	262	242	323	75
Honduras	366	57	184	175	10
Mexico	22			1	4
Nicaragua	60		7		
Panama	72	22	3	2	5
Paraguay	3,359	508	256	165	106
Peru	10,725	304	26		2
Uruguay	1,239	23	38	4	23
Venezuela	99	4	8	5	13
Region	3	1			9
Area total	46,542	3,987	1,451	1,001	512
East Asia:					
Cambodia	792				
Indonesia	2,918	1,991	4,199	4,946	5,805
Korea	4,477	473	341		
Philippines	994	8,454	4,730	8	8
Thailand	6,658				
Vietnam	40,244				
Region	750				
Area total	56,880	10,932	9,270	4,954	5,813
Near East, South Asia, and Africa:					
Congo (Kinshasa)	(2)				
Ethiopia	155	8	21	1	
Greece	13	3			
Guinea	779				
Iran	1,966				
Jordan	1,680	11			
Liberia	558	55	11	3	2
Libya	19				
Mali	292				
Morocco	116				
Pakistan					
Senegal	884	6		4	21
Sudan	(2)				
Tunisia	2			1	
Upper Volta	15				
Area total	6,486	83	32	9	23
Worldwide total	109,908	15,002	10,753	5,964	6,348

[1] Fiscal year 1962 was the 1st year that civic action assistance was so identified in MAP. Fiscal year 1971 worldwide total is estimated at $5,471,000. MAP civic action assistance to Vietnam was terminated beginning in fiscal year 1966, to Thailand ——— in fiscal year 1967; such assistance is now wholly service funded.

[2] $500 or less.

OPERATION AND MAINTENANCE COSTS

Mr. PASSMAN. Last year we discussed that much of the military aid provided to the countries in past years has been devoted to operation and maintenance of equipment on hand and not for investment in updated or modern equipment. Is that correct?

General WARREN. Practically all of the 1971 program is operation and maintenance. Only about 20 percent is allocated for investment items. In the case of ——— there will be almost none; almost all will be for maintenance and operation.

We estimate that overhead costs will account for all but about $78 million of the 1971 program we are discussing here today.

Mr. PASSMAN. General, as I indicated last year, I am concerned that a great deal of this appropriation is used to maintain obsolete or obsolescent equipment. In the long run, and for the purpose for which military assistance is provided, would it not be better to strike a happy medium and try to provide less but more modern equipment? Wouldn't it be cheaper in the long run?

General WARREN. Sir, I share your concern about this problem. What makes it difficult to increase the investment items—even though many obsolescent items are being supported by MAP—is that, for the most part, the only place they can get the parts and support for their O. & M. operation is from the United States.

DESIRABILITY OF MODERNIZING ALLIED FORCES

Mr. PASSMAN. General, I am not arguing about that being correct, as long as you are going to provide parts for obsolescent equipment; but my worry is that in many instances 90 percent of the funds for a particular nation go for maintenance of obsolete or obsolescent equipment. I am just wondering if it wouldn't be better in the long run, and maybe cheaper, to keep the equipment possibly more modern rather than to waste money on maintaining obsolete equipment that may not serve the purpose it was furnished for in the beginning.

General WARREN. We would like to modernize forces, particularly in Korea and China. Our problem is that we do not have enough money at this time to do it.

Mr. PASSMAN. I know. I think, and most all of the other witnesses also, place China and Korea just about in the same category so far as importance to the United States is concerned. But we see that only ——— of the total money for China is for investment, ——— is for overhead and maintenance for obsolete and obsolescent equipment.

General WARREN. Correct.

Mr. PASSMAN. If this equipment would serve the purpose for which it was originally intended and will furnish the security that we originally intended for it to furnish, then this is well and good, but if the enemy should come along with more modern equipment I would think these people be more or less helpless.

FUNCTIONAL BREAKDOWN OF FISCAL YEAR 1971 PROGRAM

Would you please provide for the record a breakdown of the $392 million program proposed for fiscal 1971, indicating what amount is estimated to be used for operations and maintenance, investment, training, and supply operations?

I believe I did state correctly a moment ago for the Republic of China, and I think this would also apply to Korea, that only ——— is for investment and the other ——— is for operation and maintenance costs of obsolete or obsolescent equipment. Is that a statement of fact?

General WARREN. That is correct, sir.

Mr. PASSMAN. Will you put the figures as to the total program in the record?

General WARREN. Yes, sir.

(The document follows:)

FISCAL YEAR 1971 PROPOSED PROGRAM

[Dollar amounts in thousands]

	Amount	Percent
Operation and maintenance	$218,127	55
Investment	77,764	20
Training	34,644	9
Supply operations	61,465	16
Total	392,000	100

Note: The program line item detail which forms the basis for this budget request summarizes to a figure of $392,000,000, the total of proposed new obligational authority ($350,000,000), plus anticipated recoupments, reimbursements, and reappropriations ($42,000,000).

FORWARD DEFENSE COUNTRIES VERSUS POTENTIAL ENEMY CAPABILITIES AND EQUIPMENT

Mr. PASSMAN. Could you evaluate the military capabilities of the four forward defense countries—Korea, the Republic of China, Turkey, and Greece—in relation to the type of equipment they have on hand as opposed to the potential enemy?

(Classified information was furnished to the committee.)

Mr. LONG. Would the chairman yield?

Mr. PASSMAN. I would be very happy to yield to my distinguished, esteemed, and able friend from Maryland.

RETURN OF TRANSFER PROGRAMS TO MAP

Mr. LONG. In fiscal 1968 the military assistance program for Thailand and Laos were transferred from the foreign assistance appropriations bill to the Defense appropriations bill. Portions of the MAP budget are contained in several titles of that bill under the budgets for our own Armed Services. The transfer was justified as administratively more convenient because of the relationship of the programs to our combat operations in Vietnam and as preventing the Thailand and Laotian programs from jeopardizing funds for other military assistance programs.

Now this, of course, is in line with what the Chairman has been saying, a theme that he has been pushing for a great number of years and I think with justification, that is, that we have been hiding our aid program and instead of it going down it has actually been increasing. He has some powerful statistics which support this theme.

Now, Secretary Laird told the appropriations committee last month that the United States would reduce the authorized forces to 434,000

men by mid-April, testifying to the success of our Vietnamization program. Now, isn't it time to shift the Thailand and Laos programs back into the foreign assistance appropriations bill?

General WARREN. Sir, the current policy is to do so when the hostilities are ended. I would appreciate an opportunity to put a more detailed answer in the record.

Mr. LONG. All right.

(The information follows:)

FUNDING OF MILITARY ASSISTANCE FOR LAOS AND THAILAND

The military assistance programs for Laos and Thailand were transferred from the Military Assistance Program to the Department of Defense budget by the previous administration in 1967. In the case of Laos, U.S. military assistance supports Laotian forces in combat operations and therefore the requirements fluctuate sharply dependent on the rate of combat. The rigidities of the Military Assistance Program are such that these fluctuations cannot be accommodated in the regular program appropriations without considerable effect on other programs worldwide.

With regard to Thailand, as the Thais are contributing men to our efforts in South Vietnam it was considered more efficient to meet both the requirements for the Thai forces in South Vietnam and for the regular Thai military grant program from the same financial and logistics system. Also, many facilities and activities in Thailand are jointly used and operated by United States and Thai forces. Single source funding was believed to be necessary for the sake of good management and economy.

It was also recognized that there was greater efficiency and more effective management to support military assistance to Thailand and Laos, as well as the Thai forces in South Vietnam, from a financial and logistic base common with the U.S. forces deployed to the area and at the time that the previous administration justified to Congress the transfer of these programs to the regular DOD budget, it was stated that they would be returned to the regular MAP following the cessation of hostilities in Southeast Asia. Also, irrespective of which budget funds these programs, the Department of State would continue its supervisory role to insure consistency with foreign policy.

The whole U.S. effort in the field of foreign aid, both economic and military, is under intensive review. Any decisions with regard to the restructuring of foreign aid efforts will be dependent upon the recommendations made to the President by his Task Force on Economic Development, and on other reviews currently being conducted by the National Security Council. Until these reviews are completed, and their recommendations acted upon by the President, no decision can be made. The source of funding for these two programs will be given the closest attention by the President, the Secretary of State, and by the Secretary of Defense when the President's budget for fiscal year 1972 is being formulated.

Mr. LONG. Is it necessary to continue to hide the size of these items in the budgets of our on Armed Forces?

General WARREN. No, sir. It is not a question of concealment. The reason they are in those budgets is that our military assistance programs are not geared to provide logistics support of a combat situation such as that in Vietnam. We do not have the same bookkeeping detail on the service funded programs for Vietnam, Laos, and Thailand as we do on the programs we fund; but we do exercise the same control over their content. We are ready to shift them back into the regular military assistance budget at any time.

Mr. LONG. I hope very much that you will, because I do think that if what we are trying to do is disengage ourselves as the principal combatant and do what we have been claiming for years, that this is basically a South Asian, or Southeast Asian battle and we are merely helping, then I think we ought to go back to our aid concept and get

away from this being a military item. I think this faces the thing more frankly. When you keep it in the Defense budget it sort of hides it as part of the Defense budget, whereas I would like to see it out in the open as an AID program.

That is all. Thank you.

Mr. PASSMAN. Mr. Cohelan, you are a very patient member of this committee. Do you have any questions you want to get into the record before I proceed?

Mr. COHELAN. Thank you very much.

AUSTRIAN TRAINING PROGRAM

Would you expand on the purpose of military assistance to Austria?

General WARREN. Sir, all we have for Austria is a very small training program in the United States. The European Command has a fund which it uses for training in the United States for the various countries in its area. We continue to carry Austria on the books to bring one or two of her people per year to the States.

PROGRAM FOR ETHIOPIA

Mr. COHELAN. Thank you. Now turning to Africa, with respect to Ethiopia our program is ———. Included in there is ——— and so on. What earthly purpose is all that ——— for?

General WARREN. Ethiopia has ———. This particular ———. The ——— came from surplus, so they were not too expensive. The reason they are needed is that Ethiopia does have tribal problems around her borders. ———.

Mr. COHELAN. Are you referring to Somali?

General WARREN. Sir, I had a list of all the tribes involved. There are about four of them which concern Ethiopia. I would like to put the names in the record.

(The information follows:)

AREAS OF DISSIDENCE

The tribes in Ethiopia that have caused internal security problems for the Ethiopian Government are (i) the dissident tribal and ethnic groupings (predominantly Muslim), under the leadership or guidance of the Eritrean Liberation Front in Eritrea Province; (ii) the Arusi Gallas of Bale and Sidamo provinces, and (iii) the Somali nomadic elements in the Ogaden region.

General WARREN. ———. All of the equipment we are giving Ethiopia is designed for internal security or civic action work.

Mr. COHELAN. They have ——— in the armed forces. Is that a correct figure or is it a total of ———?

General WARREN. The United States agreed some time ago that, through MAP we would equip and support ——— Ethiopian troops. ———.

Mr. COHELAN. It says here it has a GNP of $1.5 billion and a per capita GNP of $64, which means that there is an awful lot of misery and poverty there.

General WARREN. Yes.

Mr. COHELAN. There is a Government expenditure for defense in its budget of $46 million. I have expressed myself before on this, General. I look on this very dubiously. There is another country right close by. We do not have to clutter the record here.

Now, they have, for their own security reasons, a defense force of about 2,000. I think they asked us for military assistance. I discussed it with the Minister of Defense there. He wanted one helicopter. He had exactly the same border problem that Ethiopia has. Now, I am awfully hard put to explain the ——— in any terms that make sense because in studying the country of Ethiopia the information that seems to come from it is that ———. Our interest there is going to be vulnerable anyway.

Have you any contingency plans for that area in case something does blow up?

General WARREN. Sir, to my knowledge, the United States does not have any commitments of a mutual security nature with respect to Ethiopia or, in fact, any other African country. Ethiopia does not have an external problem except for the Somali threat which might arise; but it does have a rather major internal problem which involves banditry and armed insurgency supported by some agencies outside the country.

Mr. COHELAN. For that they need two squadrons of tactical fighters?

General WARREN. Sir, ———. They use them to a degree for coastal control.

Mr. COHELAN. General, I do not want to belabor this. We have gone through this before. But I hate to see ——— going for this purpose in this country. I am wondering on a cost-benefit analysis, and in the long run, what the benefit of ——— continuing to support this or not, after taking a real look at what the prospects are politically, what the long-term benefits are going to be.

Now, General, some of us have been around here long enough, we have asked these questions in other places ———. That is what I am worrying about.

General WARREN. I understand that. ———. If you like, I could give you some details or put them in the record.

Mr. COHELAN. I don't think that is necessary. I think we all understand what it is. I do not think it is your fault.

General WARREN. I understand.

Mr. COHELAN. I do think, and I want to make it loud and clear for the benefit of your colleagues here at the table and I hope it gets downtown real strong, this really grabs me. You know this committee also has a responsibility for the African Development Bank.

General WARREN. Yes.

Mr. COHELAN. I know the economic conditions there. We have been in the field in depth with World Bank projects, with IDA projects, with bilateral loan projects. It is a very sad scene. By the way, I would like to know for the record how many people we have there now.

General WARREN. There are about ———.

Mr. COHELAN. That pretty well takes care of it.

SITUATION IN THE PHILIPPINES

How about the Philippines? I am greatly concerned about the situation in the Philippines. Two years ago when I was out there they diverted $500,000 worth of Bulgar wheat. There were people in the Ministry involved. To suggest that there may be corruption in govern-

ment is putting it midlly. We are being attacked in the press. In fact, I think the only other press in the world that compares with the Filipino press is the Turkish press. We are in a very sensitive period now as we approach renegotiation of base rights and other matters involving the Laurel-Langley Treaty. I have a great personal affection for the Filipinos and hope that we can help them to help themselves.

I am now concerned among other things, with our military assistance to the Filipinos. I wonder if you would comment on that.

General WARREN. Yes, sir; I would be glad to.

They have not used our equipment up to the standards of other countries in this area. The recent riots of students and attacks on the Embassy originally started out as a movement against the corruption in the Government ———. So it ended up with a rally in which they attacked and stoned the U.S. Embassy.

Clark Field is subjected to thievery all the time. It is surrounded by an organization comparable, I guess, to the Mafia.

MAP PROGRAM FOR THE PHILIPPINES

Mr. COHELAN. Where is the breakdown on the Philippines? What page is it on? I see the training.

General WARREN. It is on page 23 of the Congressional Presentation Document.

Mr. COHELAN. So the C–47's—I didn't think we had any more of those.

General WARREN. These are surplus, sir. The Air Force is gradually releasing C–47's. We rehabilitate them and use them in the Military Assistance Program. They have a problem because the Philippine Islands, as you know, cover a very large area and communications and transportation between them is very difficult. That is why we have given them cargo aircraft. Their entire program is designed to assist in economic development and to provide a stable enough government to encourage better economic programs. Most of what we have given them is engineering equipment because the President wants to put in a road net, better schools, and some other improvements of that nature. They have a problem also with smuggling on all of their islands, and they need some equipment for coastal patrol and surveillance.

Mr. COHELAN. We only have one patrol ship in here.

General WARREN. Sir, they have a number. I have the inventory here.

Mr. COHELAN. Do they have 12?

General WARREN. Forty-two, sir; provided through the Military Assistance Program.

Mr. COHELAN. I continue to be quite skeptical. Some ——— who have served out there ——— have been virtually uniform in their criticism of the way our military assistance—meaning materiel—have been employed by our friends in the Filipino service. As one who is, I suppose, sympathetic as anyone you would find, I find that the patience of people like myself is just running out vis-a-vis our brothers across the sea. I think it is time for us to tell them to shape up. It would be different if they did not have the skill or the ability. They are a very able people. Since we have been out there so long there is no

reason in the world why they cannot properly use the material which we supply them for their own defense.

General WARREN. The figures we have indicate that about ——— percent of the grant aid equipment which is still in their inventory, is operational today; that is a fairly good index. ———. There is quite a contrast.

Mr. COHELAN. That is particularly true in ——— is it not?

General WARREN. Yes.

Mr. COHELAN. All the operational reports I saw were way off in relation to ——— and other recipient countries at the level of operational training.

Mr. KNAUR. For the record, the equipment in inventory in China and Korea is ——— percent operational as compared to ——— percent in the Philippines.

Mr. COHELAN. I think I have expressed myself on that. I thank you.

Mr. PASSMAN. Thank you, Mr. Cohelan.

U.S. BASES IN MAP RECIPIENT COUNTRIES

Would you also place in the record a list of all the countries in which the United States presently has base-right privileges?

General WARREN. Yes, sir.

(The document follows:)

MAP COUNTRIES WITH IMPORTANT U.S. MILITARY INSTALLATIONS

Important U.S. installations are located in the following military assistance recipient countries: Ethiopia, Greece, Libya*, Morocco, Philippines, Portugal, Republic of China, Republic of Korea, Spain, Turkey.

OVERSEAS BASES NO LONGER USED BY THE UNITED STATES

Mr. PASSMAN. Also, indicate in what countries in the last 10 years we have had our base rights withdrawn. I would not like to have that answered out of context. What countries in the past 10 years have we surrendered, turned back, by a one-sided agreement, our base rights? I want to be sure we get a list of all the bases that we no longer have full access to.

General WARREN. I understand.

Mr. PASSMAN. Where they were located and the original cost to construct them?

General WARREN. Yes, sir.

(The information follows:)

NUMBER OF DEPARTMENT OF DEFENSE INSTALLATIONS RELEASED IN FOREIGN COUNTRIES ON THE INITIATIVE OF THE HOST COUNTRY

Country	Number of installations	Cost to the U.S. Government (in millions)
France	184	$467.0
Libya	1	77.1
Morocco	4	378.6
Pakistan	1	11.3
Total	190	934.0

*Withdrawal from Wheelus Air Base to be completed by June 30, 1970.

General WARREN. Do you want all of the bases from which United States withdrew for its own purposes?

Mr. PASSMAN. I am not trying to place the blame. I want a list of the U.S. bases on foreign soil that we no longer have full use of in keeping with the original agreement between the countries.

General WARREN. I understand.

Mr. PASSMAN. And the cost of those bases, and name the country.

General WARREN. I will put it in the record.

Mr. KNAUR. You want that on our initiative or a foreign country's initiative?

Mr. PASSMAN. Either way.

Off the record.

(Discussion off the record.)

EMPHASIS ON FORWARD DEFENSE COUNTRIES

Mr. PASSMAN. General, on page 1 of the justifications you state that the $350 million budget request for fiscal 1971 does not appear to provide the level of support needed to effectively implement the Nixon Doctrine. It that correct?

General WARREN. That is correct.

Mr. PASSMAN. I assume that if an increase is made in the military assistance program we will see a drop in our overseas troop strength. Is that a valid assumption?

General WARREN. Yes, sir.

Mr. PASSMAN. Also the justifications state that 71.6 percent of the total funds available for fiscal year 1971 are estimated to be allocated to the four forward defense countries and 9.7 percent to three base rights countries. This makes a total of 81.3 percent of the estimated total funds available for military assistance in fiscal year 1971 to be allocated among seven countries. Is that correct?

General WARREN. Yes, that is correct.

Mr. PASSMAN. I would assume that the need for this large concentration of funds in these countries is because they command a high priority due to strategic consideration and strategic location; is that correct?

General WARREN. Correct, sir.

REVERSION OF OKINAWA

Mr. PASSMAN. It is my understanding that at some early date Okinawa will revert back to Japan and we will be deprived of certain privileges that we enjoy at this time, militarily, after the base reverts back to Japan, speaking of the administration end of it.

General WARREN. Yes. The administration of the island will change and become the responsibility of a new government. Our basic activities are being reviewed but will, I think, continue.

Mr. PASSMAN. Of course, but not in the same degree as of today.

Mr. KNAUR. That is right.

Mr. PASSMAN. Is the fact classified, that we have poisonous gases on Okinawa?

Mr. KNAUR. I don't believe so.

General WARREN. It has been in the papers.

Mr. PASSMAN. We do, of course, have some of these poisonous gases presently in Okinawa and we are arranging to remove them; are we not?

General WARREN. Yes, sir.

Mr. PASSMAN. It is my understanding that when Okinawa reverts back to Japan it will be a part of a sovereign country; namely Japan. Is that correct?

General WARREN. Yes.

Mr. PASSMAN. ———.

General WARREN. ———.

Mr. PASSMAN. ———.

General WARREN. ———.

Mr. PASSMAN. ———.

General WARREN. ———.

Mr. PASSMAN. I only know the temperament of the people. When you land in Okinawa now you see big signs, even though we have complete control, saying "Get the B–52's off of Okinawa."

General WARREN. Yes, sir.

Mr. PASSMAN. You are not so optimistic as to believe that if and when Okinawa reverts to Japan that you would have more concessions, do you?

General WARREN. I would assume not.

Mr. PASSMAN. Thank you, General. If we are going to maintain the type of military posture in that part of the world which we claim is important and vital to the security of America, it simply means that we are going to have to give a little closer attention to our allies that we have remaining in Asia.

General WARREN. Very true.

Mr. PASSMAN. Would you assume that the Republic of China, who has been so very cooperative, would become even more important to the United States after Okinawa reverts back to Japan, than it is presently?

General WARREN. ———.

Mr. PASSMAN. Thank you very much, General.

Mr. Shriver?

PROGRAM FOR KOREA

Mr. SHRIVER. How much is in this budget for Korea?

General WARREN. ——— in terms of 1971 new obligational authority for MAP. We have also allocated ——— for credit sales.

Mr. SHRIVER. Is that all of the military assistance?

General WARREN. No, sir. The ——— is all grant aid, sir. The United States, through the service budgets, provides support for the two divisions they have in Vietnam.

Mr. SHRIVER. In addition to what they receive themselves?

General WARREN. Yes, sir.

Mr. SHRIVER. What is the grant total, then? I don't suppose it will ever show in the record, but I would be interested in knowing.

General WARREN. The total grant and DOD funded aid is ———.

Mr. SHRIVER. What else do we give them?

General WARREN. We are offering, or have earmarked for Korea, ——— million in fiscal 1970 credit sales, and in 1971 we anticipate offering ———.

Mr. SHRIVER. All right. Are we, in addition to that, supporting their troops in Vietnam, or is that included?

General WARREN. Yes, sir. The figure I gave you of ——— million is for support of their troops in South Vietnam.

Mr. SHRIVER. Is that paid to the Government and they, in turn, then reimburse their troops?

General WARREN. No, sir. Most of that is in the form of equipment and supplies. ———

Mr. SHRIVER. And you included all of that in the figure that you gave to me a moment ago?

General WARREN. Yes, sir.

Mr. PASSMAN. Will the gentleman yield?

Mr. SHRIVER. Certainly.

Mr. PASSMAN. We had a former ambassador in Korea and there is a concessionary agreement that we attached the name of the Ambassador to. Do you recall that?

General WARREN. Ambassador Brown; yes, sir.

KOREAN TRANSFER PROGRAM

Mr. PASSMAN. You have the Brown agreement where we have been more or less ———.

General WARREN. The first thing involved here is that the Brown Memorandum ———.

Mr. PASSMAN. ———.

General WARREN. Yes.

Mr. PASSMAN. What was the amount of that?

Mr. KNAUR. That is included.

Mr. PASSMAN. What is the amount per year?

General WARREN. Sir, if we carry this through to fiscal 1972——

Mr. PASSMAN. Per year.

General WARREN. It is cumulative. ——— is the amount that they would have picked up through fiscal 1970.

Mr. PASSMAN. That is the grant total?

General WARREN. It is the total, through 1970, of the goods that they would have picked up and paid for themselves ———.

Mr. PASSMAN. ———.

General WARREN. Yes, sir.

Mr. KNAUR. But it is already included in the figure previously given.

Mr. PASSMAN. That does not have anything to do with the fact that you are going to establish the cost. It is good for people to know of these little side deals that are made if you are going to wind up with the ultimate cost.

Mr. SHRIVER. How long has it been since the Korean war?

General WARREN. It ended in June of 1953, so it has been 17 years.

Mr. SHRIVER. We are still giving them this kind of military assistance?

General WARREN. Yes.

KOREAN MILITARY STRENGTH AND DEFENSE EXPENDITURES

Mr. SHRIVER. How many people do they have in their armed services?

General WARREN. They have a larger army than the North Koreans have. Total military strength is———. An army of———navy——— and air force ———.

Mr. SHRIVER. How much is Korea spending from her own funds for her own defense?

General WARREN. The latest information we have—we do not know about 1970—indicates that Korea spent ——— million of her own funds, in fiscal 1969, or—I am corrected—calendar year 1969.

THIRD COUNTRY ASSISTANCE TO KOREA

Mr. SHRIVER. What other countries are contributing military assistance programs to South Korea?

General WARREN. None that we know of right now. ———.

Mr. PASSMAN. And that started as a U.N. war.

General WARREN. ———.

Mr. PASSMAN. But they have not. You are only living with a hope?

General WARREN. This is correct.

U.S. COMMITMENT TO KOREA

Mr. SHRIVER. Do we have a binding obligation to continue with this kind of expenditure after 17 years, even with their large forces there? Do we have a commitment?

General WARREN. We have a mutual defense treaty but no binding commitment that would prohibit us from pulling out our troops. Of course, the amount of their annual military assistance programs, as well as their credit sales, which we hope to build up, are dependent upon what the Congress authorizes and appropriates.

TOTAL U.S. AID TO CHINA

Mr. SHRIVER. There are many in Congress who question the need for all this military assistance to the Republic of China, yet we are continuing it.

General WARREN. Yes, sir. China, I think, sir, is a good example of what we wish would happen everywhere because they certainly have done a wonderful job with the military assistance we have given them, and the program has come down from $90 million in grant aid 3 or 4 years ago to $25 million last year. The program proposed for fiscal year 1971 is for ———.

Mr. SHRIVER. Up to now, though, how many millions of dollars have we given them?

General WARREN. Cumulative program and excess is $3.3 billion. They also received $2.3 billion in economic aid over the past years.

Mr. SHRIVER. Over a period of how many years?

General WARREN. Since the beginning of the Military Assistance Program.

Mr. PASSMAN. Would the gentlemen yield?

Mr. SHRIVER. That might be enough.

Yes, I yield.

Mr. PASSMAN. I think we ought to show for the record—and I know this is what the gentleman wants—that the total aid to the Republic of China exceeds $5.5 billion.

I think the gentleman makes a good point. If we have put up $5.5 billion for the Republic of China we must have felt they were extremely important to the security of the United States.

General WARREN. Yes, sir.

Mr. SHRIVER. I want to bring out the point it may be about time we let them take care of their own defense.

Mr. PASSMAN. Of that amount, $3.3 billion went to the military?

General WARREN. Yes, sir.

BUILDUP OF CHINESE ECONOMY

Mr. PASSMAN. On account of our economic aid, we claim they have built themselves up to where they are now self-supporting economically.

General WARREN. Yes, sir.

Mr. PASSMAN. We also felt they were reaching the point where they could support themselves militarily, and the annual aid allocation to the Republic of China has dropped in the past 3 or 4 years from $90 million down to $25 million?

General WARREN. For fiscal year 1970, yes, sir.

Mr. PASSMAN. During the same period they have become a cash customer of the United States.

General WARREN. That is correct.

Mr. PASSMAN. Thank you.

CHINESE PURCHASES FROM THE UNITED STATES

Mr. SHRIVER. How much do they purchase from this country per year?

Mr. CONTE. It is mostly funded with textiles, bicycles, shoes, things that are killing us back home.

General WARREN. I have only military purchases, sir. Would you like that figure?

Mr. SHRIVER. Yes.

General WARREN. The Republic of China has purchased from the United States in the period 1965 to 1969 a total of $132 million in military items. Of that amount, $87.5 million was FMS credit sales, and $39 million was FMS cash sales, and $5.1 million was commercial sales.

Now, we estimate that in 1970, they will want to purchase about ——— worth of military equipment; and we are earmarking ——— to be offered them in credit sales if the FMS legislation is approved. In 1971, which we are discussing here today, we estimate total Chinese purchases at ——— of which ——— would be FMS credit sales.

Mr. CONTE. Could you give us the terms of those credit sales?

General WARREN. May I ask Mr. Alne to comment on that for past years? Our terms in 1971 and 1970 call for repayment of the money loaned in 10 years or less with interest at the cost of money to the U.S. Government, which right now is about 7.5 percent. Do you have the detail?

Mr. ALNE. Yes.

Mr. CONTE. Put it in the record.

(The information follows:)

FOREIGN MILITARY CREDIT SALES TO CHINA

Fiscal year	Amount of FMS credit (in millions)	Percent interest charged
1966	$2.6	———
1967	10.0	———
1968	26.0	———
1969	20.0	———

EXCESS MATERIEL AND SHIP LOANS FOR CHINA

Mr. CONTE. If the gentleman will yield further on China, you mentioned that they have gone down from $90 million in grant aid to $25 million, but I think to have the record complete we must put in there what Secretary Laird said; namely, that last year we gave them about ——— in surplus military material.

General WARREN. That is correct.

Mr. CONTE. We sold them ——— which I believe were valued at ——— each, for ——— each.

General WARREN. We are going to sell them ——— sir. The total original cost was ——— million. These are old now. They will cost the Republic of China about ——— in rehabilitation and transportation. There are a number of other items if you would like them as examples.

Mr. CONTE. Which came to a total of what?

General WARREN. A total of ——— in fiscal 1970.

Mr. CONTE. Well, chop it down.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

MAP AND THE NIXON DOCTRINE

Mr. SHRIVER. On page 7 of your statement you make reference to the Nixon doctrine, would you explain what you mean by that?

General WARREN. Yes, sir. The highlights of the Nixon doctrine were covered by Secretary Laird as follows——

Mr. SHRIVER. Was this yesterday?

General WARREN. Yes.

Mr. SHRIVER. I am sorry that I could not be here.

General WARREN. There are just three points. The United States will keep all of its treaty commitments. We shall provide a shield if a nuclear power threatens the freedom of a nation allied with us or a nation whose survival we consider vital to our security and the security of the region as a whole. In cases involving other types of aggression, we shall furnish military and economic assistance when requested and as appropriate, but we shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defense. This is a very abbreviated version of the doctrine as I understand it.

As Mr. Laird said yesterday—and I believe the President has also stated in some of his remarks—the successful implementation of the doctrine is going to be very costly; and it will not work unless our military assistance grant aid is increased markedly or funds are made available from some other source that we can use for the same purpose.

Mr. PASSMAN. If the gentleman will yield. Why don't you cite for the record just what countries this military assistance program is so important to, in order to implement the doctrine? Will you do that?

General WARREN. Sir, fundamentally the first priority countries to which it would apply to are those where we have U.S. troops, particularly combat units. These would be Korea, and the Philippines, for example, and the Republic of China to some extent.

Mr. PASSMAN. Vietnam?

General WARREN. Sir, yes, very definitely; Vietnam and Thailand. But those countries are different, and they present a bigger problem.

Mr. PASSMAN. Thank you. I just want to be sure I understand what the Nixon doctrine calls for.

Mr. SHRIVER. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Don't shake my confidence in President Nixon. I think he is a strong President. I am going to support him.

Mr. SHRIVER. I yield to Mr. Conte.

Mr. CONTE. Yesterday, Secretary Laird said the Nixon doctrine was going to cost a lot more. You said the same thing today. The chairman asked you to put in the countries that we are going to have to supply military assistance to in order to implement that doctrine. Now, you have a budget request here of $350 milllion, plus carryovers?

General WARREN. Yes.

Mr. CONTE. What do you think the figure would be to implement the Nixon doctrine?

General WARREN. I could comment with regard to Korea, sir.

Mr. CONTE. We have Korea. It is over ———.

General WARREN. Yes, sir. It is over ———.

Mr. CONTE. ——— additional.

COST OF MODERNIZATION OF KOREAN FORCES

General WARREN. Yes, sir, for modernization. It might be interesting to note that he mentioned, in connection with the overall problem, the international fighter which has been under study. We now have a source selection for an airplane which might later replace the F–86's, the F–84's, the F–100's. Also, we are running out of parts for the some 1,000 MAP-provided F–5's all over the world. As to Korea. I would guess ——— dollars would be required for modernization alone. One of the things the Secretary agreed to put in the record was a study we made in ISA. This unilateral study which Mr. Laird mentioned indicated that it would cost us, over a 5-year period, a total of about ——— to raise the Korean forces to some reasonable level of effectiveness.

Mr. CONTE. That is over 5 years?

General WARREN. Yes. It could be more than that if we modernized them the way we would really like to.

Mr. CONTE. Can you give me an overall figure? We keep going back to Korea. That is only one of the strategic countries that lie next to the Sino-Soviet bloc. I imagine we are not going to dump the rest of them. We have Indonesia, the Philippines, China, Greece, Turkey.

TOTAL SHORTFALL OF ALL MAP COUNTRIES

General WARREN. I think an overall figure—and this one is based on the so-called shortfall which is the best estimate of the area unified commanders and MAAG's as to what they need to carry out their program but do not have to date. For example, in Korea, to which I refer again because the shortfall is large, ——— vehicles are deadlined because the whole Korean fleet is old. We estimate that the total shortfall—and this is subject to debate—will be around ——— for all grant aid countries by the end of fiscal 1971.

Mr. PASSMAN. Military?

General WARREN. Yes, sir.

Mr. CONTE. The shortfall.

Mr. PASSMAN. The shortfall?

General WARREN. Yes. It is about ——— worldwide. That is an estimate. It is debatable because there are no firm criteria. Among other things—and I speak of the Air Force not because I am in it, but because aircraft is one of the most expensive and important items in some of these country programs—if you ever start replacing ——— fighters at, say, ——— per copy or something like that, it gets into big money very quickly.

Mr. PASSMAN. Could that shortfall be itemized in the record for us by country?

General WARREN. I have it here by area, and I have it by countries.

(The information follows:)

ESTIMATED DOLLAR SHORTFALL

In the development of military assistance programs and plans, the unified commander is provided with guidelines which include U.S. national objectives, the military assistance objectives, and dollar guidelines. Dollar shortfall is the value of equipment which in the opinion of the unified commander should be provided to meet the above objectives but cannot be because of the dollar limitations.

The worldwide dollar shortfall, as calculated by the unified commanders, at the end of fiscal year 1971 for MAP supported countries (less training only countries) is approximately ———. See breakout below:

Shortfall by end of fiscal year 1971

[In millions of dollars]

Area/country	*By end of fiscal year 1971*
East Asia and Pacific:	
China	———
Indonesia	———
Korea	———
Philippines	———
Near East and South Asia:	
Greece	———
Turkey	———
Europe: Spain	———
Africa:	
Congo	———
Ethiopia	———
Tunisia	———
Latin America:	
Colombia	———
Dominican Republic	———
Ecuador	———
El Salvador	———
Guatemala	———
Honduras	———
Nicaragua	———
Paraguay	———
Uruguay	———
Total shortfall	———

(1) Shortfall as computed by unified commands.———.

COST OF IMPLEMENTING NIXON DOCTRINE

Mr. CONTE. So we have the record clear, if we are going to implement the Nixon Doctrine we have a shortfall of ——— worldwide in military assistance?

General WARREN. Sir, I would not equate it to the Nixon doctrine because there are many small countries—at least in my opinion and as I understand it—into which I do not believe we are going to have to put a lot of money. It is mostly a case of the six or seven countries which are the most important strategically or where there are U.S. troops. I am sorry I cannot answer, sir, but nobody has analyzed all the different countries.

Mr. CONTE. It has to be more than ———, then.

General WARREN. This ——— includes, as I mentioned, the present commanders' estimates of what it would cost to bring indigenous forces in their areas up to a reasonably modern level. Those estimates were not related to the Nixon Doctrine, but the shortages are certainly very pertinent to it. But we have not analyzed each country in the context of the Nixon Doctrine.

Mr. PASSMAN. That is what I am trying to get my finger on, the cost to implement the Nixon Doctrine.

Mr. KNAUR. May I say for the record—and this is a strange way to document something—this morning's CBS news quoted Secretary Laird, presumably after he left this room, as saying that, in order to implement the Nixon Doctrine, $1 billion would be needed in military assistance.

Mr. SHRIVER. Over a period of time?

Mr. CONTE. No; this year.

Mr. KNAUR. Over a period of time.

Mr. CONTE. No; this year. He said yesterday that for Korea alone you would need ——— to bring its ——— this year.

Mr. KNAUR. By the end of fiscal year 1971.

Mr. CONTE. That is right. That is what we are dealing with here.

General WARREN. Yes, sir, you are correct on that, but I believe he was only referring to ground forces.

Mr. CONTE. ——— in fiscal 1971 because you have ———. So there is ——— dollars there, and then you have China, the Philippines, Turkey, Greece. Now Greece must be way down because of our freeze since the dictatorship took over there.

Mr. PASSMAN. Would the gentleman mind placing in the record, since you are going to place in the record the ——— shortfall, the breakout by country for fiscal 1971, covering the figure we just mentioned.

Mr. CONTE. That would be all right.

(The information follows:)

Of the ——— estimated shortfall, more than ——— is for East Asia and Pacific countries. Shortfall for Korea alone totals ——— of which ——— is for investment. See insert page 1187, following line 12.

NATO THIRD COUNTRY AID TO GREECE AND TURKEY

Mr. SHRIVER. What other NATO countries are helping Greece or Turkey militarily?

General WARREN. Germany is currently assisting significantly and several others—Italy, Canada—either are or have in the past made contributions.

Mr. SHRIVER. What does that amount to?

General WARREN. The German program is quite small.

Mr. SHRIVER. Would you put in the record the totals of military assistance that those countries are furnishing Greece and Turkey, if you do not have it?

General WARREN. Seven countries are helping Greece, sir. From 1954 through 1968, their total conrtibution amounted to $35.9 million.

Mr. SHRIVER. As compared with how much we gave them during that period?

General WARREN. Ours has been running about $35 million per year in the recent past, in grant aid. The countries involved are Belgium, Canada, Germany, Norway, Spain, the United Kingdom, and Italy. The biggest contributors are Canada with ——— and Germany with ———. I am talking about Greece.

With respect to Turkey, six countries have helped since 1954. From 1954 through 1969 the total was $196 million, and the countries involved were Canada, the biggest with ———, France, Germany, Italy, Sweden, the United Kingdom. However, in fiscal 1969, only one country helped Turkey—Germany, with ———.

Mr. SHRIVER. How much American military assistance went there during the same period?

(The information follows:)

Military assistance to Greece and Turkey grant aid deliveries fiscal year 1954–69

	Millions
Greece	$1,184.0
Turkey	2,374.9

THIRD COUNTRY AID TO LATIN AMERICA

Mr. SHRIVER. Is there any other country giving military assistance to the Latin American countries?

General WARREN. Yes, sir.

Mr. SHRIVER. Who is that? Cuba?

General WARREN. No, sir; I do not think there is any Communist aid going there at all.

Mr. CONTE. I don't know about that.

General WARREN. I can give you some examples, if I may.

Mr. CONTE. Isn't there Soviet aid?

Mr. KNAUR. Cuba.

General WARREN. Cuba. I was talking about Latin America.

Mr. CONTE. How about Brazil?

General WARREN. With respect to MAP, it is a training only country. The only Latin American country I know of which has received Communist assistance is Colombia, which acquired some military jeeps from the Soviets some years ago. In the case of Russia, it is never a complete grant.

Mr. CONTE. They barter, don't they?

General WARREN. Yes, sir; the Soviets barter. There are some countries to which they give this material and bill them although they realize that they may not be repaid.

I have some figures on overall assistance from some of our allies to Latin America. I was interested to find out that some of our friends—specifically the United Kingdom, France, Germany, Italy, and Canada—have sold almost $500 million in equipment over the past 5½ years to Latin America.

Mr. SHRIVER. They are selling to them?

General WARREN. Yes, sir. Over recent years the United Kingdom has sold $200 million worth of ships and aircraft in Latin America, and France has sold $65 million there, plus another $184 million to Africa, almost all to South Africa.

Mr. SHRIVER. Are those cash sales, short-term loans, or what?

General WARREN. As far as we know, they are all sales with different terms and gimmicks. For example, the U.S.S.R.—and I understand France may have done this on occasion—will give a loan at, let's say, 2-percent interest with 20 years to repay. These countries use their sales program as a political weapon.

Mr. SHRIVER. Are we losing out on selling military hardware to Latin American countries?

General WARREN. Yes, sir, very definitely. Another year or two, and I would guess that at least four Latin American countries will be buying aircraft from Europe.

Mr. SHRIVER. We have a rather serious balance-of-payments problem in this country.

General WARREN. Yes, sir.

SALES TO SOUTH AFRICA

Mr. SHRIVER. What about sales to South Africa? Are we still not selling to South Africa?

General WARREN. Yes, sir; we are prohibited. We support the United Nations resolution on that.

Mr. SHRIVER. Are the other countries that belong to the United Nations supporting that resolution? For instance, England and France?

General WARREN. I understand England does, but France does not. France sells what they call defensive equipment which, according to their interpretation, is not in conflict with the resolution.

Mr. SHRIVER. That is what I understand.

General WARREN. What we are doing, sir, honoring an agreement that we would deliver certain parts to support some transport equipment and related items we sold them previously. With perhaps a few exceptions, on a case by case, our sales are limited to spare parts—never anything lethal.

Mr. SHRIVER. All at a time when we are having problems with our balance of payments. This is pretty ridiculous to me.

Mr. PASSMAN. Will the gentleman yield?

Mr. SHRIVER. Certainly.

THIRD COUNTRY SALES

Mr. PASSMAN. I wouldn't want to leave the impression in the record that Germany, Canada, and a lot of those nations are selling equipment for any other purpose than earning a profit. Would you want to leave that impression?

General WARREN. No, sir. What I mean is that we support third country sales of some of these equipments to Latin America and Africa.

Mr. PASSMAN. But they are sales, are they not?

General WARREN. They are sales.

Mr. PASSMAN. You mentioned a concessionary interest rate. I think you could pick up an evening paper and see where the larger furniture stores will advertise their furniture at no interest and I would assume that they had a full profit in the price of the commodity sufficient to take care of the terms, wouldn't you?

General WARREN. Yes, sir; I would.

Mr. PASSMAN. You would not discount that being true here?

General WARREN. No, sir.

Mr. PASSMAN. Thank you.

DOWNWARD TREND OF U.S. SALES TO DEVELOPED COUNTRIES

Mr. SHRIVER. I notice your comment on page 12 of your statement where you are talking about the trend attributable to several factors, including the increased volume of sales to non-European countries, improving European technological capability which allows many countries to produce more of their own and their neighbors' military materiel requirements, and so forth. It just appears to me that we are beginning to lose the advantages that we have had, particularly in aircraft which is commercially sold. I would agree with the statement that you made.

General WARREN. Yes, sir; the U.S. sales to developed countries are going down some, but this trend is being offset by the fact that lesser developed countries are buying relatively more as they become economically better able to do so.

SALES TO SOUTH AFRICA

Mr. SHRIVER. I would like to ask the Secretary what the possibility is of our having some relaxation on this so-called United Nations agreement relative to certain sales to African countries. I refer especially to the sale of airplanes that are not going to be used for the military and equipment such as trucks that would not be used for military purposes. Most anything can hypothetically be used by the military, I realize.

Mr. CHAPMAN. To South Africa in particular?

Mr. SHRIVER. South Africa specifically.

Mr. CHAPMAN. The policy of abiding by the U.N. resolution I think has been reaffirmed.

Mr. SHRIVER. When?

Mr. CHAPMAN. Within the administration.

Mor. SHRIVER. When, approximately? A year or 2 years ago?

Mr. CHAPMAN. No; within the last few weeks.

Mr. SHRIVER. The last few weeks?

Mr. CHAPMAN. Yes, sir.

Mr. SHRIVER. Who makes such a decision?

Mr. CHAPMAN. The President, sir.

Mr. SHRIVER. It does not look as though we can get any improvement in the balance-of-payments situation there very soon, does it? We have possibilities of sales. I know of some that would improve the economic condition of this country and the people of this country if we would relax that policy. When I was talking with the Secretary I was not talking so much about military sales. I am talking about the sale of plain airplanes that are not even sold to our Government for military purposes.

Mr. CHAPMAN. In South Africa, sir, the ban is on military equipment to the Armed Forces of South Africa, but it does not ban the commercial sales.

Mr. SHRIVER. Well, I know it has with companies that do not even do business with the Defense Department.

FRENCH AIRCRAFT SALES

Mr. CONTE. When President Pompidou was here, there was a demonstration over the sale of planes to Libya. I can see where that is a very disturbing thing because it changes the balance of power over there. Of course, it will not take place, I imagine, for a good many years to come. Nonetheless, I am equally disturbed over France's policy of selling armaments to anybody. I would like to know what kind of a deal France made with Peru for the sale of French Mirages. Here is a country that has its back to the wall. It is one of the most impoverished countries in all of Latin America. It has one of the highest illiteracy rates in Latin America. People are starving. They do not have an education. They have no land. I just could not paint a more dismal picture

as far as Peru is concerned. Yet France goes over there and sells them 25 Mirages, not external defense. What kind of a policy is this of a country that will sell anybody anything?

General WARREN. Although there are self-imposed French restrictions on sales to part of the Middle East area, France is selling Mirages and wherever else it can and it is selling them as a Government operation to get a foot in the door. I know of no other constraints they have anywhere. They made over $920 million in foreign military sales in fiscal 1969. They are in business to sell equipment all over the world. They manufacture tanks, trucks, small arms, and artillery. The Mirage—3 sells at approximately $1.3 million per copy, which is less than the $3.5 million cost of our own F–4 fighters. The Secretary mentioned this yesterday. Although I don't know if they will ever sell it in Latin America, the average sales price on Mig 21's has been $950,000; and it is one of the better interceptors. They use sales for a political purpose as well.

Mr. CONTE. They sure do. I imagine they have a two-price market on those things.

General Warren. Oh, yes. They have different prices and different business arrangements.

Mr. CONTE. You bet your life they do. Right now we are hurting badly on generators and transformers. One of the big problems is France. Of course, there are about five other countries. They have a two-price market. They have an internal price and they have an export price. They lose money on the export price so they jack the internal price way up. Moreover, they will not give anybody a license to go in and compete with them in France. General Electric, which is in my hometown, cannot go into France and compete with them because they would murder them. They could sell transformers in France for about 50 percent of what France is selling transformers for on the internal market. Yet they come over here. We have not bought an American-made transformer now for about 5 years in any of our Federal installations in this country such as the Tennessee Valley Authority. The whole market is in France, Sweden, Italy, Great Britain, and now Japan. I imagine they are doing exactly the same thing with their French Mirages. I imagine they have a multiple-price market.

General WARREN. I am sure they do, and concessions as well, sir. The Libyan deal was signed and sealed for ——— Mirages, and I think delivery starts in ———.

Mr. CONTE. ———. What are they getting back for that? Is it cash or oil?

General WARREN. I do not know the terms of the agreement. ———.

Mr. KNAUR. It goes even one step futher, and this should be off the record.

(Discussion off the record.)

Mr. CONTE. I hope, our Government gets smarter. We are being taken badly. If we start going after them when they dump products on the U.S. market, we might be able to negotiate with them and say "Why are you getting into Latin America and selling Mirages to Peru which they are going to have a tough job of trying to find somebody to

even fly?" That was just as bad as in Ethiopia where they had no pilots for the planes. Moreover, they need all their money for the bare necessities of life.

Mr. SHRIVER. I agree with what my colleague said.

Mr. PASSMAN. If that is in the form of a motion, I will agree also.

Mr. SHRIVER. Would you put into the record the reaffirmation of the United Nations resolution made by the President?

Mr. CHAPMAN. Yes, sir.

(The information follows:)

ARMS EMBARGO TO SOUTH AFRICA

I understand this policy will be reenunciated by the Secretary of State in the very near future. ("Our relations with the Republic of South Africa have been a matter of particular attention—we are maintaining our arms embargo." Secretary Rogers appearing before House Foreign Affairs Committee, March 26, 1970.)

Mr. SHRIVER. That is all.

Mr. PASSMAN. Thank you, gentlemen.

THURSDAY, MARCH 12, 1970.

Mr. PASSMAN. The committee will come to order.

On Tuesday we had the privilege and the honor of having the Secretary of Defense, the Honorable Melvin R. Laird, and the Chief of the Joint Chiefs of Staff, General Wheeler, appear before the committee to testify in behalf of the budget request for the Military Assistance Program for fiscal 1971.

On Wednesday we spent the entire day discussing the program request of $392 million with General Warren. On both days we dealt with the overall program and its general aspects.

Today, we shall go into some of the detail and examine the requests for funds on an illustrative basis, by area.

FISCAL YEAR 1971 PROGRAM FOR EUROPE

First we shall discuss Europe. The fiscal 1971 request is $26,093,000. This is an increase of $38,000 over the allocation for fiscal 1970.

General WARREN. That is correct.

Mr. PASSMAN. At the present time there are only four countries involved in this area—Portugal, for which the estimate for 1971 is ———; Spain, for which the fiscal 1971 estimate is ———; and Austria and ——— which are programed for training only programs. Is that correct?

General WARREN. That is correct.

Mr. PASSMAN. What amount of training is programed for Austria and ——— in fiscal year 1971? Why is it necessary to provide these two countries which such small training programs?

(The classified information was furnished to the committee.)

Mr. PASSMAN. I notice you estimate that as of June 30, 1970, you will have an undelivered balance of ——— for Norway. Why does such a large balance remain when the military assistance program for Norway has been terminated for several years, and what type of equipment remains to be delivered?

General WARREN. The ——— represents the undelivered portion of a Norway/United States cost share shipbuilding program. All of this program has now been delivered.

Mr. PASSMAN. I notice the 2-year extension of the defense agreement with Spain expires in September 1970.

At the present, are there any negotiations taking place concerning the further extension of this agreement and will a new agreement be tied in with a request for further military aid?

General WARREN. I understand that the Spanish Foreign Minister will visit Washington on Tuesday and Wednesday of next week to open talks on the possible further extension of U.S. military rights in Spain. ———

Mr. PASSMAN. What type of equipment is scheduled to go to Spain from excess defense stock in fiscal year 1971?

General WARREN. There is an excess ——— scheduled to go to Spain in fiscal year 1971. This unit is to cost ——— for repair/rehabilitation of excess items. There are other excess items for this unit which have a utility value of ———. These do not require repair/rehabilitation. ———.

Mr. PASSMAN. Are negotiations still taking place with Portugal concerning the use of the Azores base? Does it appear that some sort of favorable agreement will be reached in the near future?

General WARREN. In November 1968 the then Portuguese Foreign Minister told Secretary Rusk that his government wished to reopen negotiations on U.S. peacetime use of bases in the Azores. State Department and Embassy representatives have discussed this question on an informal basis, but no decision has yet been made on holding formal negotiations.

Mr. PASSMAN. All of the funds tentatively programed for Portugal in fiscal year 1971 are for operating, supply operations, and training costs, is that true?

General WARREN. Yes. The tentative program has ——— in operating items. These items are spare parts, class IV aircraft modification, books, maps and publications and technical assistance. There is ——— for supply operations and ——— for training and training support. The program total is ———.

FISCAL YEAR 1971 PROGRAM FOR AFRICA

Mr. PASSMAN. General, your fiscal 1971 estimate for Africa is $18,585,000. Your 1970 program is $18,534,000. This estimate is an increase of $51,000 over the 1970 program. Is that correct, sir?

General WARREN. Yes, sir.

Mr. PASSMAN. I notice one of the objectives of military aid in this area of the world is to ease tensions resulting from Soviet arms deliveries to Algeria.

Have these arms deliveries been increasing over the past several years?

General WARREN. The Soviet arms deliveries to Algeria have been decreasing ———.

Mr. PASSMAN. What was the dollar value of the Soviet deliveries made this past year to Algeria?

General WARREN. The dollar value of Soviet arms delivered to Algeria in 1969 is negligible ———. Total deliveries since 1962 are valued at ———.

Mr. PASSMAN. What type of equipment has been furnished by Russia?

General WARREN. ———.

Mr. PASSMAN. The justifications state that a limited training program is estimated in fiscal year 1971 for Morocco, Ghana, and Senegal, and a few orientation training visits for military personnel for other African countries.

Would you please list the countries which will participate in these orientation visits?

General WARREN. The specific visitors under this program have not been designated for fiscal year 1971. They could come from countries such as: Guinea, Ghana, Senegal, Cameroon, Dahomey, Ivory Coast, Mali, Niger, Sierra Leone, and Upper Volta.

Mr. PASSMAN. How much do you estimate these orientation visits will cost in fiscal year 1971?

General WARREN. We are planning a program of $100,000.

Mr. PASSMAN. Would you please tell the committee what type of training is conducted during these orientation visits?

General WARREN. The visiting defense leaders are acquainted with training principles and techniques which will be useful to them in the context of the internal security and civic action needs of their countries. They also are given an insight into the functioning of American Government, industrial management in the United States, and a personal opportunity to observe the political and social structure in this country.

Mr. PASSMAN. What type of military personnel participate in this program and how many took part in the program last year?

General WARREN. There are two types of military personnel who participate in these tours—individuals now occupying high positions in Defense Ministries and in the Armed Forces, such as the Chief of Staff, and younger officers and commanders who have demonstrated a likelihood for advancement to these higher positions. Thirty-six took part in the program last year.

Mr. PASSMAN. You also state a proposed program of ——— for Libya is provided to maintain a reduced presence of our MAAG required to administer equipment delivered under prior programs and to assist with projected sales of equipment and training.

Are we planning to make future sales to Libya?

General WARREN. We are selling to the Libyan Government on a cash basis those items that have been determined to be excess or noncritical to our needs which are now located at Wheelus Air Base. We signed an agreement with the former Libyan Government in June 1969 to deliver 8 F–5's beginning in early 1971. This brings the total number of F–5's we have sold to them to 18, of which 10 were delivered in 1968. There may be some sales of supporting equipment for the materiel the Libyans already have on hand. We have had no discussion with the new Libyan Government about sales of additional aircraft.

Mr. PASSMAN. Are we still providing training assistance to this country?

General WARREN. We stopped processing new students for grant training at the time of the coup. The only students still being trained under the grant program were already in training at that time. We may have a modest training program on a sales basis.

Mr. PASSMAN. Why do we program training of Libyan personnel when we have been asked to close down Wheelus Air Force Base?

General WARREN. Even though we have been asked to leave Wheelus Air Force Base, we still have substantial interests in Libya. Any training would be on a sales basis.

Mr. PASSMAN. The first country in the Africa area is the Congo, for which ——— is estimated for fiscal year 1971, a ——— the fiscal year 1970 program.

The funds for investment purposes in this country have been limited to the purchase of trucks in the last several years, is that correct?

General WARREN. Yes, it was primarily for trucks. Of the ——— for investment in fiscal year 1971, ——— is for trucks ——— the balance is for communications equipment. The total in fiscal year 1970 was for trucks ——— for ———. For fiscal year 1969, the investment amount of $898,000 was primarily for trucks ——— but also included some communications equipment.

Mr. PASSMAN. The next country in Africa is Ethiopia, for which the fiscal year 1971 estimate is ——— the fiscal 1970 program level. You state that one of the important objectives of the military assistance program for this country is ———.

I assume this was what you said about Wheelus Air Force Base last year but we have now been removed from that base. Do you actually feel ———.

General WARREN. ———.

Mr. PASSMAN. How much military aid have we provided Ethiopia over the years?

General WARREN. We have provided ——— in military aid to Ethiopia between 1950 and 1969.

Mr. PASSMAN. Last year we discussed briefly the yacht we supplied Ethiopia several years ago. It was stated the yacht was due for a major overhaul in fiscal year 1970 and the only costs to the United States would be for the parts which could only be obtained in the United States. How much does the U.S. plan to spend on these spare parts in this current fiscal year? Why should we spend any money at all for this ship?

General WARREN. In fiscal year 1970 we plan to spend ——— for spare parts for the overhaul of the H.M.S. *Ethiopia*. We believe that it is in our best interests as well as the Ethiopians that the ship be kept operational and capable of performing its functions, whatever they may be, satisfactorily.

Mr. PASSMAN. It is indicated that ——— this program will help maintain internal security, is that correct? Would you please tell the committee why an ——— is needed to maintain internal security? This seems to go beyond the internal security requirements.

General WARREN. We have supplied Ethiopia with the F–5 aircraft because this versatile multipurpose aircraft has shown a capability for providing close air support to ground troops in the conduct of counterinsurgency operations of the type Ethiopia is experiencing.

Mr. PASSMAN. The next country in Africa is Liberia, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

You state one objective is to ———. Does this mean we are interfering in the internal operation of this country's Government?

General WARREN. No. The U.S. Government is not interfering in the internal operations of the Liberian Government.

Mr. PASSMAN. I know the United States likes to be accepted by all countries, but some nations choose to reject us regardless of how much aid we provide. Why do we feel this small African nation is worth this particular amount of aid ———.

General WARREN. ———. Our modest military assistance program is certainly no guarantee of Liberia's continued friendship and it is not intended to be such a guarantee. But as a reciprocal gesture of friendship and concern for Liberia's internal security it contributes to that objective.

Mr. PASSMAN. The next country in the Africa region is Tunisia, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

I notice that you finally plan to deliver the ——— in fiscal year 1970. Why did it take so long to get ——— to Tunisia?

General WARREN. Delivery of the ——— was keyed to the training cycle and Tunisians' capability to absorb the aircraft. All ——— aircraft were delivered in the first half of fiscal year 1970 ——— in August and ——— in November 1969.

Mr. PASSMAN. You state this program is intended to assist in reducing the military imbalance resulting from Soviet military aid to Algeria; is that correct?

General WARREN. Yes, sir.

Mr. PASSMAN. Have you been successful in reducing this imbalance?

General WARREN. We are primarily interested in lessening the impact, the tensions, resulting from this imbalance. ———. Our program will assist, however, in making necessary qualitative improvements (personnel and equipment) to Tunisia's Armed Forces which will increase its capability to defend itself.

Mr. PASSMAN. How would you evaluate the Tunisian Armed Forces as compared to those of Algeria?

General WARREN. The military forces of Algeria are substantially larger and more heavily equipped. ———. Nevertheless, the Tunisians are hopeful that with qualitative improvements (equipment and personnel) to its forces, coupled with the advantages of its defensive terrain, it can develop a creditable defensive capability.

FISCAL YEAR 1971 PROGRAM FOR NEAR EAST AND SOUTH ASIA

Mr. PASSMAN. We notice for the Near East and South Asia area that the fiscal 1971 estimate is $124 million, compared to the program of $128,871,000 for 1970. That is a reduction of $4,871,000. Is that correct, General?

General WARREN. Yes, sir.

RESTRICTIONS ON MAP TO INDIA AND PAKISTAN

Mr. PASSMAN. General Warren, again this year you indicate that Military Assistance to India and Pakistan is limited to training in the

United States and to foreign military sales of nonlethal end-items and spare parts. Is that correct, Sir?

General WARREN. That is correct.

SOVIET SUBMARINE YARD IN INDIA

Mr. PASSMAN. It is my understanding that the Russians have built or are building a submarine yard in India.

General WARREN. Sir, I do not know.

Mr. PASSMAN. Would you furnish something for the record on this question?

General WARREN. Yes, sir.

(Classified information was furnished to the committee.)

MIG ASSEMBLY PLANTS IN INDIA

Mr. PASSMAN. The Russians have one or more Mig plants in India, do they not?

General WARREN. Yes, I believe there are two assembly plants at which Mig-21's are assembled, mostly from USSR components.

Mr. PASSMAN. They have at least two Mig plants in India, do they not, which are relatively new?

General WARREN. They have two or three plants. One of them may not be involved with Migs, but I believe there is a total of three plants, at least two of which are working with Mig assembly.

Mr. PASSMAN. Migs are fighter planes?

General WARREN. Yes, sir, interceptors, primarily.

Mr. PASSMAN. Of course, submarines are used for warfare, are they not?

General WARREN. Yes, sir.

Mr. PASSMAN. We have a very substantial economic aid program for India. It would appear in this instance that generosity has outrun wisdom. It certainly takes money to operate an aircraft assembly plant whether it is in India or in any other place, does it not?

General WARREN. Yes, sir.

ECONOMIC AID TO AND MILITARY SPENDING BY INDIA

Mr. PASSMAN. We are pouring billions of dollars of aid per year in India, in the aggregate it is now about $8 billion, and no doubt this money helped India pay for badly needed commodities for their domestic economy. Is that correct?

General WARREN. Sir, I am not familiar——

Mr. PASSMAN. Is the answer "yes" or "no"?

General WARREN (continuing). It would be yes.

Mr. PASSMAN. So our aid would release to them earnings out of their own economy to spend on their military establishment. Would that be a fair assumption?

General WARREN. Yes, sir.

Mr. PASSMAN. And, of course, Migs are Russian planes, are they not?

General WARREN. That is correct.

Mr. PASSMAN. I wish I had the brains to know how to unravel this puzzle that we have gotten ourselves into.

ECONOMIC AND MILITARY AID TO PAKISTAN

Let's move on to Pakistan. I believe we have a very substantial economic aid program in operation in Pakistan?

General WARREN. We do.

Mr. PASSMAN. Before adding the fiscal 1970 program, I believe the aggregate aid to Pakistan is in the neighborhood of $4 billion. I believe that Pakistan uses this money we credit them with to purchase, no doubt, badly needed commodities for their domestic economy or consumption; is that correct?

General WARREN. Sir, I believe most of the economnic aid is in the form of food or commodities instead of dollars.

Mr. PASSMAN. I believe I used this in terms of commodities, to pay for commodities, necessities of life, fuel for their own domestic economy. Would that be a fair assumption?

Mr. CHAPMAN. On the Public Law 480 we are providing food directly. As the general says——

Mr. PASSMAN. What do they do with the dollars you credit them with? I am trying to get the same completely factual answer that I got on India. We have provided billions of dollars to Pakistan. That has been used to pay for public works improvements, commodities, or anything which has to do with helping them build up their internal economy.

Mr. CHAPMAN. That is correct.

Mr. PASSMAN. At one time we also delivered to Pakistan substantial military equipment.

Mr. CHAPMAN. That is right, sir.

Mr. PASSMAN. We ceased furnishing new military equipment to Pakistan at the beginning of the war between India and Pakistan.

Mr. CHAPMAN. That is right, sir.

Mr. PASSMAN. Since that time we have provided spare parts only.

Mr. CHAPMAN. For sale, sir.

Mr. PASSMAN. We have made available spare parts?

Mr. CHAPMAN. That is right.

RED CHINESE PROVISION OF MILITARY EQUIPMENT TO PAKISTAN

Mr. PASSMAN. And I believe at this time Pakistan is placing orders, and have placed orders, and are receiving certain military equipment, including tanks, from Red China; are they not?

Mr. CHAPMAN. That is our understanding, sir.

Mr. PASSMAN. This is another sad state of affairs. It looks as though we are forcing our most dependable allies right into the arms of the Communists. I want only to make the record. I am not in the executive end of our Government and I am not in the policymaking end of it. I can only say what I have said before, and that is, if our actions in this part of the world are right, then honestly and sincerely I am without the intelligence to comprehend.

SOURCES AND TYPES OF MILITARY EQUIPMENT ACQUIRED BY INDIA AND PAKISTAN

Would you provide for the record the details of any sales agreement you have made with India and Pakistan during the past year for the sale of nonlethal end items and spare parts?

General WARREN. During the past year (fiscal year 1969) FMS sales to India consisted of:

Items	*Amount*

Mr. PASSMAN. Is India still purchasing most of her arms and military equipment from the Soviet Union?

General WARREN. India has signed ——— arms agreements with the U.S.S.R. since November 1960. ———. No grant aid has been given to India by the U.S.S.R. These agreements have provided for a wide range of ground, sea, and air equipment including the construction of a Mig factory complex. ———. The U.S.S.R. is the major supplier of arms to India ———.

In recent years India has pursued a policy of development of an arms production capability to reduce dependence upon foreign sources. Although progress has not been spectacular it has resulted in a steadily increasing arms output ———. Despite increasing output, India is not yet self-sufficient in production of most of these items and will continue dependent upon foreign sources to fill its requirements for these items as well as heavier more sophisticated ground equipment ———.

Mr. PASSMAN. Has India stepped up efforts to produce her own armaments?

General WARREN. India has been slowly gaining proficiency and capability in the production of aircraft such as the domestically designed and produced HF–24 jet fighter and HJT–16 jet trainer as well as the production, under license with imported components from the United Kingdom, of the GNAT jet fighter. ———. However, India is increasing local production of components for the GNAT. India is steadily progressing toward self-sufficiency in the production of Mig–21 jet fighters. Since inception of this assembly/production program in 1966, India has completed about ——— aircraft. The assembly was initially from Soviet supplied components. However, India has increased the domestic content of the aircraft ———.

Before 1966 India's naval ship production capabilities were confined to the construction of minor naval ships and a few inshore minesweepers. In 1966 the keel of the first *Leander* class frigate was laid with components supplied by the United Kingdom ———. However, it is not anticipated that India will be capable of producing the more sophisticated armament and electronic equipment in the near future. Other naval ship production has included patrol boats.

India has made steady but not spectacular progress toward development of an armament industry.

Mr. PASSMAN. Pakistan is also purchasing arms and military equipment from Communist countries, is that not true?

General WARREN. ———.

Mr. PASSMAN. Could you tell the committee what type of equipment India and Pakistan are purchasing from the Communist countries?

General WARREN. The following table lists the types of military equipment purchased from Communist countries by India and Pakistan ———.

Mr. PASSMAN. Why do we continue to supply economic aid to these two countries when they turn around and buy military equipment from Communist nations?

General WARREN. We supply economic aid to India and Pakistan to help them undertake development programs. If we did not give them economic aid, we would not expect their military purchases to be reduced much since they are at a level both countries believe the minimum necessary to their national defense. We believe the development efforts of both countries would be the first activity to be reduced if economic aid is not given. Put more positively, our economic aid induces these countries to channel more of their internal resources into economic development than would otherwise be the case, so that they may use the aid furnished effectively and so that they may continue to merit the attention of aid donors.

The reaction of Communist China to the cutoff of military and economic aid from the Soviet Union illustrates this point. Economic growth since that time has been small while there is no evidence that Communist China's military effort has slowed.

GREEK GUNBOAT PURCHASES FROM FRANCE

Mr. PASSMAN. An article appeared in the Washington Post of February 27, 1970, concerning Greek plans to buy four gunboats and 30 Mirage jets from France. Turkey feared this transaction would upset the military balance between the two countries.

General, do you feel there is a possibility of upsetting this balance?

General WARREN. ———. In line with our planning to shift our grant aid program for Greece to a combination of grant aid and credit sales, Greece will purchase more of the equipment it needs. Consequently, the Greeks may purchase more modern weapons. In that case, I believe the Turks would ——— seek to acquire equally effective weapons or weapon systems ———.

FISCAL YEAR 1971 CASH AND CREDIT SALES TO IRAN

Mr. PASSMAN. On page 25 of the justifications, you state that Iran has been one of the major military assistance success stories and that the military assistance grant equipment program successfully terminated in fiscal year 1969.

What amount of credit and cash sales do you project for Iran in fiscal year 1971?

General WARREN. For fiscal year 1971 we project credit and cash sales for Iran as follows: Foreign military sales credit of ——— and total cash sales of ———. Of the cash sales we estimate that ——— will be foreign military sales on a government-to-government basis and that ——— will be on a government-to-industry or commercial basis.

NESA TRAINING ONLY COUNTRIES IN FISCAL YEAR 1971

Mr. PASSMAN. It appears from the justifications that nine countries—Iran, Saudi Arabia, Afghanistan, Ceylon, India, Jordan, Lebanon, Nepal, and Pakistan— are programed to receive training only in fiscal year 1971; is that true?

General WARREN. Yes, sir.

FUNCTIONAL BREAKOUT OF PROPOSED NESA PROGRAM

Mr. PASSMAN. Would you furnish for the record a table showing the percentage and the amount of the $124 million which is planned to be allocated in fiscal year 1971 for operation, investment, supply operations, and training purpose in this area?

General WARREN. Yes, sir.

(Information follows:)

NEAR EAST AND SOUTH ASIA—FISCAL YEAR 1971 MILITARY ASSISTANCE PROGRAM
[Dollar amounts in thousands]

	Amount	Percentage
Operating	$35,067	28
Investment	54,938	44
Supply operations	25,984	21
Training	8,012	7
Total, NESA	124,000	100

Note: May not add due to rounding.

BREAKOUT OF NESA AREA TRAINING

Mr. PASSMAN. Would you please provide for the record a breakdown by country of the $886,000 programed for training in fiscal year 1971 for the seven U.S. training-only countries? Why did you find it necessary to lump these figures together this year?

General WARREN. Yes, sir.

(Information follows:)

Near East and South Asia breakdown of fiscal year 1971 CONUS training only countries

Our estimated program for fiscal year 1971 for each of the seven countries follows:

Afghanistan	———
Ceylon	———
India	———
Jordan	———
Lebanon	———
Nepal	———
Pakistan	———
Total	$886,000

To permit flexibility during implementation no specific dollar level or number of students is allocated for the above countries in the Congressional Presentation Document.

MAP AND FMS TO GREECE

Mr. PASSMAN. The first country in this area is Greece, for which the fiscal year 1971 estimate is ——— the program level for fiscal year 1970.

You state in the justifications that the selective suspension of major equipment shipments remains in effect. Where is Greece now purchasing major equipment items?

General WARREN. Submarines and transport aircraft are being acquired from Germany; some helicopters have been purchased in Italy and the French are selling patrol craft. These are currently the major purchases. It appears that Greece is waiting as long as possible on consummating other major purchases to see what determinations the United States may make on its grant and sales program for Greece. They would prefer to continue to buy from us, as equipment from various sources complicates their spare parts, technical publications, training and other programs. Also, it appears the Greek Government would like to improve its relationship with the United States due to our past friendship and the close ties that exist between the Greek and American people.

Mr. PASSMAN. General, do you feel we should continue the present level of military grant and sales aid in future years if constitutional government does not return to Greece?

General WARREN. For some years to come Greece will be dependent on external assistance to maintain, operate and modernize its NATO committed forces. The Greek people voted a constitution in September 1968. However, no firm date has yet been set for holding elections. The United States continues to have the use of rather important communication, air and naval facilities in Greece. Such U.S. security interests are of overriding importance and must be protected.

Mr. PASSMAN. You indicate on page 31 that the undelivered balance of June 30, 1970, is estimated to be $———. Does this amount consist of major equipment items on which we have suspended shipment or does this represent other equipment that will not be ready for shipment this fiscal year?

General WARREN. That estimated amount to be delivered after June 30, 1970, represents both items that are suspended and those not available for shipment this fiscal year.

Mr. PASSMAN. Is any of this undelivered equipment in storage and if so how much does it cost to store? Why don't we use this equipment for other countries instead of placing it in storage?

General WARREN. We do divert some of these items to other recipients as much as we can. The items stored and estimated fiscal year 70 cost are as follows: ———. The total cost of storage is $1,644,641.

Item	Quantity	Estimated fiscal year 1970 storage cost
———	———	———
Total		$1,644,641

Mr. PASSMAN. Would you please define what you mean by selected major items of equipment. The reason that I ask this question is that I notice you plan to deliver ——— in the fiscal year 1971 program.

General WARREN. The selected major items of equipment are ———. This suspension policy has been in effect since April 1967. Following the Czechoslovakian crisis, the United States agreed to some exceptions to the suspension policy with particular reference to those items whose end-use supported a NATO requirement. ——— were included in these

exceptions. The ——— are included in the proposed fiscal year 1971 in order that we may proceed with the normal procurement or required rehabilitation for certain items and at the time the suspension is lifted we would be able to implement an orderly program in support of the forces that Greece has committed to NATO.

Mr. PASSMAN. Does this suspension of major items of equipment apply also to the military credit sales program?

General WARREN. The suspension policy has also applied in the case of military sales to Greece. In the case of grant aid, certain exceptions to this policy have been made on items whose end-use fulfilled a NATO requirement. On this basis, certain sales have also been authorized.

Mr. PASSMAN. What will be the size of the military credit sales program for fiscal year 1971 and how does this compare to the fiscal year 1970 program?

General WARREN. The proposed credit sales program for Greece in fiscal year 1971 is $———. The proposed credit sales program in fiscal year 1970 is $———.

Mr. PASSMAN. What do you estimate will be supplied to Greece in excess defense stocks this year and what will be the major items?

General WARREN. The statistical table at page 31 of th Congressional Presentation Document fiscal year 1971 indicates that during fiscal year 1970 the estimated utility value of excess stocks to be delivered to Greece is $———. The major items involved are ——— ———. In addition. There are ——— and miscellaneous equipment involved.

Mr. PASSMAN. Do you happen to have any idea as to when we will be able to terminate our military assistance program for Greece?

General WARREN. For some years to come Greece will require external assistance to support, maintain and modernize its NATO committed forces. In our planning process we are proposing a shift from a total grant program to a combination of grant and credit sales. This is already borne out by our fiscal year 1969 programing process by supplementing our grant program of $37.5 million with $20 million in credit sales. Depending upon available Greek resource capability and other available resources, grant aid, if not entirely eliminated, may be substantially scaled down.

MILITARY ASSISTANCE AND FMS TO TURKEY

Mr. PASSMAN. The next country in the NESA area is Turkey, for which the fiscal year 1971 estimate is ——— for fiscal year 1970.

I notice you plan to provide an ——— in fiscal year 1971. How many F–100's and F–5's does Turkey have in her inventory and what is your thinking as to the optimum size needed for Turkey's Air Force in terms of number of aircraft?

General WARREN. Turkey now has ——— F–100's and ——— F–5's, which also includes the reconnaissance versions of the F–5's. The squadron force objective for the Turkish Air Force, which probably would be more meaningful than just a total number of aircraft, is set forth on page 32 of the congressional presentation program justification.

Mr. PASSMAN. How much is in this budget for the ———?

General WARREN. ———. This is the estimated cost if the ship needs to be reactivated from a deactivated-mothballed-status.

Mr. PASSMAN. I notice you also planned to provide ——— in mili-

tary credit sales for fiscal year 1971. What items will be sold to Turkey under this program?

General WARREN. We do not have a specific program showing items which would be bought with this money. In general, however, we would plan to sell them force modernization items that previously had been provided through grant aid. Conceivably, they could be any items once provided through grant aid but for which there are now insufficient funds. These could include end items, or spare parts and supplies.

Mr. PASSMAN. It appears that the Turkish Navy is in need of additional vessels in order for it to meet the planned objectives. Are there any plans for the United States to loan Turkey other navy vessels in the next couple of years?

General WARREN. Ship loan legislation now awaiting congressional action provides for the loan to Turkey of two destroyers and two submarines. These are intended as replacements for obsolescent ships in the Turkish inventory.

Mr. PASSMAN. You indicate a good deal of excess defense articles will be delivered in fiscal year 1970. How much is planned for delivery in fiscal year 1970 and what major items of equipment will be included?

General WARREN. As you know, the availability of excess defense articles depends on many variables: U.S. troop withdrawals, tempo of operations, reductions in size of military services, and so forth. Taking these variables into account as best we can, we anticipate provision of ——— to Turkey in fiscal year 1971. Major items to be included are ———.

Mr. PASSMAN. As I mentioned earlier, a recent article cited Turkey as being afraid that the military balance between her and Greece might be upset because Greece was planning to buy ships and aircraft from France. After looking over this ——— program for fiscal year 1971 and the type of equipment which is being delivered to Turkey, I don't believe Turkey is in quite as dangerous a position as they would lead you to believe, considering the grant program for Greece in fiscal year 1971 is for ———. Would you please comment on this?

General WARREN. I believe your observation is a valid one. However, ——— the acquisition of a more advanced weapon by one of these countries is most likely to result in the other seeking to acquire the same weapon—or one equal to it.

PERCENTAGE OF INVESTMENT IN FORWARD DEFENSE PROGRAMS

Mr. PASSMAN. Why is there such a large difference between funds allocated for investment in the two forward defense countries in the East Asia region—Korea and Republic of China—and the two forward defense countries in the NESA area—Greece and Turkey? Since most of the estimated funds available for fiscal year 1971 are scheduled to be allocated to the East Asia area, it would seem that the Republic of China and Korea would have the greater investment allocation for fiscal year 1971 but this is not true. Would you comment?

General WARREN. It is difficult to compare the four country programs, one with another, because there are special circumstances involving each country that must be considered.

The Republic of China continues to assume progressively a greater share of its defense costs, which include operating and maintenance costs. Their purchases from the United States, under FMS and commercially, will reach an estimated level of ——— in fiscal year 1970 and include both force improvement and operating items. ———. ROC forces are large; therefore O. & M. costs are high. If the ROC economy continues to improve they will increasingly assume their O. & M. costs in future years without damage to achievement of high priority economic and social programs.

Korean forces are large and in need of modernization and as a result operating and maintenance costs are high. Their economy, although improving, is not stable enough at this time for them to assume added costs. ———.

In the case of Greece, the U.S. plans to effect a transition from MAP grant aid to a combination of grant, cash and FMS credit sales. Their economy is doing well, therefore sales have increased and they have assumed most of the operating and maintenance costs in their budget. Greek forces are relatively small and, therefore, require less operating and maintenance costs.

Over the past several years a large share of the operating costs have been assumed by the Turkish budget. This transition has been facilitated by relatively more settled security conditions than in the case of the forward defense countries in the Far East. The proposed fiscal year 1970 program is intended to continue modernization of forces without any increases to the operating and maintenance costs. We are also providing for modest sales.

FISCAL YEAR 1971 PROGRAM FOR LATIN AMERICA

Mr. PASSMAN. For Latin America it would appear that your 1971 estimate is $16,188,000. The fiscal 1970 program is $18,507,000. This is a decrease of $2,319,000 below the allocation for fiscal 1970. Is that correct?

General WARREN. Yes, sir.

COUPS IN LATIN AMERICA

Mr. PASSMAN. Has any country in Latin America experienced a military coup since you were before the committee last year?

General WARREN. Yes, sir. There has been one in Bolivia.

Mr. PASSMAN. Did we suspend military assistance to Bolivia?

General WARREN. ———

FUNCTIONAL BREAK-OUT OF FISCAL YEAR 1971 PROGRAM FOR LATIN AMERICA

Mr. PASSMAN. Would you provide a table for the record showing how much of the $16,188,000 budget for Latin America is to be allocated for operation and maintenance, investment, supply operations, and training?

General WARREN. Yes, sir.

(Information follows:)

LATIN AMERICA—FISCAL YEAR 1971 MILITARY ASSISTANCE PROGRAM

[Dollar amounts in thousands]

	Amount	Percentage
Operating	$3,810	24
Investment	1,541	10
Supply operations	857	5
Training	9,980	61
Total, Latin America	16,188	100

SUSPENSION OF AID TO COUNTRIES WITH EXCESSIVE DEFENSE BUDGETS

Mr. PASSMAN. Have we had to suspend economic or military assistance to any country in Latin America because it was spending too much money disproportionately on defense programs as opposed to economic programs, or because the country purchased sophisticated weapons systems from countries other than the United States?

General WARREN. ———. The resources devoted to defense by Latin American countries are modest in volume: As a percent of GNP, defense expenditures range from 0.1 to 3.1 percent and have remained relatively constant in recent years, a percentage lower than for any other region of the world except Africa south of the Sahara. ———.

OAS APPROVAL OF PROPOSED PROGRAMS

Mr. PASSMAN. Has the Organization of American States approved the military assistance programs of the 17 countries that are included in fiscal year 1971 program as required in section 507(b) of the Foreign Assistance Act of 1961, as amended?

General WARREN. The Organization of American States has not approved those programs as set forth in section 507(b) of the Foreign Assistance Act. The implementation of section 507(b) is effectively barred by the continuing absence of a military coordinating body within the OAS. For example, the Advisory Defense Committee provided for by the OAS charter has yet to be convened. The United States was sympathetic to a proposed amendment to the OAS charter which would have strengthened the military planning and coordination mechanisms within the OAS by transferring the attributes of the Inter-American Defense Board to the Advisory Defense Committee. However, this proposal was defeated at the 1967 Buenos Aires Conference which adopted the recent charter amendments.

DISCOURAGEMENT OF EXCESSIVE MILITARY EXPENDITURE

Mr. PASSMAN. How does the United States go about encouraging Latin American countries to develop only those military forces that are necessary for valid security needs and avoid military expenditures which might interfere with socioeconomic progress? I would imagine this is very hard to do, is it not?

General WARREN. This is indeed very difficult to do. ———. As in our own country, the demands against resources are usually considerably greater than the resources at hand. ———.

FISHING VESSEL INCIDENTS

Mr. PASSMAN. Have there been any incidents this past year concerning the seizing of any U.S. fishing vessel which would require the discontinuance of assistance according to section 620(c) of the Foreign Assistance Act?

General WARREN. There have been several incidents this year in which U.S. fishing vessels were illegally seized on the high seas. Section 620(o) of the Foreign Assistance Act requires that in determining whether or not to furnish assistance under this act consideration shall be given to excluding from such assistance any country which seizes or fines a fishing vessel.

Section 622(c) provides that "The Secretary of State shall be responsible for the continuous supervision and general direction of economic assistance and Military Assistance Programs, including but not limited to determining whether there shall be a military assistance * * * program for a country. * * *"

I therefore would defer to the Department of State on your question.

(The information follows:)

In February 1970 two U.S.-flag fishing boats were seized by Ecuador and one by Peru. These were the first seizures by these two countries since the spring of 1969. Whenever a seizure occurs, the possibility of taking action under section 620(o) of the FAA is given consideration. As a result of this consideration, we have decided ———.

We suspended Foreign Military Sales to Ecuador and Peru in December 1968 and February 1969 following seizures of U.S. fishing vessels. In July of 1969 we lifted the suspension on Foreign Military Sales to Ecuador and Peru ———.

Subsequent to the lifting of that suspension in July 1969, a four-power conference on the fishing problem was convened in August in Buenos Aires. The formal discussions lasted 3 weeks in Buenos Aires and have been followed by bilateral discussions during the past few months.

As a result of the recent seizures, we have ———. We are continuing to pursue actively the renewal of the talks on the whole range of fisheries problems. We believe that such talks offer the best hope of a basic solution to these problems. We have grounds to believe that these talks will be resumed. ———.

EMPHASIS ON TRAINING

Mr. PASSMAN. You indicate that six countries are programed to receive training only in fiscal year 1971; is that correct? These countries are Argentina, Brazil, Chile, Mexico, Peru, and Venezuela?

General WARREN. That is correct, sir.

Mr. PASSMAN. I gather most of the funds programed for Latin America in fiscal year 1971 will be used for training?

General WARREN. That is correct, sir.

NEED FOR SMALL COUNTRY PROGRAMS

Mr. PASSMAN. I notice in your justifications that most of the country programs are under $1 million. Why is it necessary to fund such small programs? Couldn't the individual country finance the program since they are not very large?

General WARREN. These small programs reflect a phase-down from the larger programs of earlier years. The recipient countries are assuming an increasing share of their own defense requirements; however, this should occur in a balanced manner. The larger proportion of

these programs is now for training. The Latin Americans do pick up a share of the cost of this training in the form of *per diem* costs for their students.

UNDELIVERED BALANCES

Mr. PASSMAN. I also note that you estimate a total of $24,333,000 will be undelivered as of June 30, 1970, which does not include the proposed fiscal year 1971 program. What does this large undelivered balance represent in the way of equipment, or is it mostly for training?

General WARREN. It is true that the proposed fiscal year 1971 program is not included in the $24,333,000 undelivered balance as of June 30, 1970. The $24,333,000 undelivered balance consists of the following:

Item	*$ Value*

BOLIVIA

Mr. PASSMAN. The first country in Latin America is Bolivia, for wchich the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

Why are no deliveries being made in fiscal year 1970, especially since most of the items seem to be short leadtime items?

General WARREN. The military assistance program for Bolivia was suspended September 26, 1969 and no delivery forecast was made. Authorization was given March 13, 1970 to resume normal supply action and delivery of materiel to Bolivia except training ammunition. Approximately $300,000 of military grant aid materiel will be shipped to Bolivia during fiscal year 1970.

COLOMBIA

Mr. PASSMAN. The next country is Colombia, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

What internal security threat now exists in Colombia, and will most of this request be used to maintain equipment on hand?

General WARREN. Three guerrilla groups operate in Colombia. ———. Urban disturbances are expected to increase as the presidential campaign progresses.

The fiscal year 1971 program will be used to maintain equipment on hand and for training.

DOMINICAN REPUBLIC

Mr. PASSMAN. The next country is the Dominican Republic for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

What type of excess aircraft and ships have been eliminated and what was done with this excess equipment?

General WARREN. May I supply that for the record?

(The information follows:)

Since 1966 the following ships and aircraft have been eliminated:

Ships	*Disposition*
2 patrol craft	Sold to Spain for scrap.
2 corvettes	Do.
1 destroyer	Do.
Aircraft	
5 AT–6	Inactivated/cannibalized for parts.
6 DH–115	Do.
5 B–26	Sold for scrap.
2 C–54	Do.
1 C–47	Do.
1 B–25	Inactivated.
3 C–45	Sold.
1 C–46	Do.
1 Hiller Helo	Discarded.
1 Lockheed Lodestar	Do.
2 T–33 jets	Returned to MAP and transferred to Uruguay.

ECUADOR

Mr. PASSMAN. The next country is Ecuador, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

You state that the military assistance program has equipped and supported about one-third of the current combat strength of the army. Is it your intention to increase this support and, if so, how much?

General WARREN. ———. The fiscal year 1971 materiel program ——— will provide follow-on support for MAP materiel previously delivered.

EL SALVADOR

Mr. PASSMAN. The next country is El Salvador, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

What is the need for the ——— and why is the Military Assistance Program getting involved in encouraging regional cooperation of this country with other Central American nations?

General WARREN. The fiscal year 1970 program for El Salvador as presented in last year's CPD was $607,000. The $404,000 fiscal year 1970 program level reflected in the fiscal year 1971 CPD is the revised level dictated by the general reduction of MAP funds for fiscal year 1970. Hence the ——— fiscal year 1971 level, from a planning standpoint, actually represents a reduction of ———.

The Central Americans have joined together in CONDECA, a regional grouping designed to foster cooperation and develop joint solutions to common security problems in Central America. We have encouraged this form of mutual cooperation since we believe that it can produce more security for less money.

Mr. PASSMAN. Most of this program is for training. Why can't this operation be discontinued?

General WARREN. For dollars spent, our training assistance in all probability provides the greatest return. A large part of this training is technical in nature and cannot be duplicated by El Salvador at reasonable cost. Graduates are used to operate and maintain equipment furnished under the grant materiel program. If we do not provide the training, it will probably not be done thus making it more difficult and costly for El Salvador to maintain a minimum level of security.

GUATEMALA

Mr. PASSMAN. The next country is Guatemala, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

What is the need for the ———?

General WARREN. Insurgency will continue to be a troublesome problem in Guatemala. The Guatemalan Government has maintained a careful balance between funds used for defense and funds used for other programs. It has progressively assumed a larger share of the cost of maintaining an adequate security force. However, it still has a very limited ability to fund major investment items. The proposed 1971 levels for all categories of assistance except aircraft and training are generally less than this year. The ——— program increase represents part of the cost of ——— helicopters, which will enable the Guatemalan Armed Forces to use existing forces more effectively.

Mr. PASSMAN. We continue to provide money for internal security in this country but if I remember correctly, last week a U.S. Government official was kidnaped. Would you please comment?

General WARREN. There have been two significant kidnapings in recent weeks (the Guatemalan Foreign Minister and the U.S. Labor attaché). In both instances, the terrorists demanded the release from jail of known terrorists who were being held for trial by Guatemalan police. Accommodations were worked out in both instances and the hostages were released unharmed. Kidnapings by terrorists for money or political purposes have been on the increase in various parts of the world. Such crimes of course are most difficult to counter effectively.

Mr. PASSMAN. Why are we providing for ——— in fiscal year 1971 when the two previously programed have not yet been delivered?

General WARREN. The two helicopters shown as undelivered on June 30, 1969, were delivered in December 1969.

HONDURAS

Mr. PASSMAN. The next country is Honduras, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

What is the need for the $———?

Also, I note ——— is for training only. Why couldn't this country's program be eliminated?

General WARREN. The fiscal year 1970 program for Honduras as presented in last year's CPD was $726,000. The $471,000 fiscal year 1970 program level reflected in the fiscal year 1971 CPD is the revised level dictated by the general reduction of MAP funds for fiscal year 1970. Hence the ——— fiscal year 1971 level, from a planning standpoint, actually represents a reduction of ———.

The comments I made earlier in justification of the El Salvador training program apply here also.

NICARAGUA

Mr. PASSMAN. The next country is Nicaragua, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

About three-fourths of the proposed program is for training. This seems to be another likely candidate for elimination. Would you comment?

General WARREN. The Guardia Nacional is Nicaragua's only armed force. It performs all police and military functions for the entire country. The comments I made earlier in justification of the El Salvador and Honduras training programs apply here also.

PANAMA

Mr. PASSMAN. The next country is Panama, for which the fiscal year 1971 estimate is ——— the fiscal 1970 program.

I notice the President has made a determination ———. This amount is ——— program previously proposed for fiscal year 1970. What is the need for this ——— in the current fiscal year and will this determination have any effect on the proposed fiscal year 1971 program?

General WARREN. The ——— increase in the fiscal year 1970 program was made to provide two reconditioned ——— helicopters. These helicopters were requested on an urgent basis by the Panamanian Government for use in conducting emergency humanitarian evacuation flights, public health programs, population control, and civic action.

The estimated effect of this determination has been included in the proposed fiscal year 1971 program. The increase in the fiscal year 1971 program can be attributed to increased cost (primarily initial investment technical training cost) associated with the expanding Guardia Nacional Air Detachment. The Panamanians have shown an increasing willingness and ability to take on the larger part of the cost associated with maintaining the air detachment.

PARAGUAY

Mr. PASSMAN. The next country is Paraguay, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

This appears to be another country program which could be phased out. Is there any plan to phase out this country?

General WARREN. ———

URUGUAY

Mr. PASSMAN. The last country is Uruguay, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

How was this large ——— accomplished, as I notice the total military strength increased by about 2,000 personnel over last year?

Also, I notice you had planned in the fiscal year 1969 program for two T–33 aircraft. Were these aircraft delivered in fiscal year 1969?

General WARREN. The ——— in the MAP level is a result of continued efforts to reduce military assistance. As a result of a careful review of the fiscal year 1971 program the decision was made to ——— and training.

The two T–33 aircraft were delivered in fiscal year 1969.

FISCAL YEAR 1971 PROGRAM FOR EAST ASIA

Mr. PASSMAN. For East Asia the estimate is $183,200,000 for fiscal 1971. For fiscal 1970 the program is $189,700,000.

General WARREN. Yes, sir.

Mr. PASSMAN. This is a reduction of $6,500,000. Is that correct?

General WARREN. That is correct.

Mr. PASSMAN. I must be fair with the Congress and the members of the committee, but I must also be fair to those in the Defense Department who are charged with the responsibility of administering a somewhat difficult program. More especially would I want to be fair during this particular period when there is still a very hot war going on in this part of the world.

Am I correct when I state for the record that in submitting your budget request to the Congress for fiscal 1970 you stated at the time that the minimum amount with which you could continue this program on a satisfactory basis would be $425 million?

General WARREN. That is correct.

Mr. PASSMAN. But the Congress appropriated only $350 million.

General WARREN. That is correct.

Mr. PASSMAN. Which left you $75 million short of the minimum needs to carry out the responsibility that you are charged with under this program?

General WARREN. Yes, sir.

Mr. PASSMAN. It is my understanding that you had indicated previously that this was an ongoing program and you would need a minimum of $425 million for fiscal 1971.

General WARREN. Yes, sir.

Mr. PASSMAN. But you have to keep your request to $350 million simply because of the limitation in the Authorization Act?

General WARREN. Yes, sir.

Mr. PASSMAN. Then it would follow that if you had a sound proposal for fiscal 1970 and a sound proposal for fiscal 1971—and you do plan several years in advance, do you not?

General WARREN. Yes, sir.

Mr. PASSMAN. Then you would have needed a minimum of $850 million, and it appears you will receive a maximum of only $700 million. That would leave a deficit of $150 million which would have to be made up subsequently or else you will have to curtail drastically the programs that you had previously planned?

General WARREN. Yes, sir. The reductions curtail our programs and prohibit the purchase of new items.

Mr. PASSMAN. If you were called upon at this time to assess the situation, would you say that the Congress would be absolutely correct in appropriating $700 million, or would you say you still would need the additional $150 million to carry out the program that you had proposed?

General WARREN. If I may go off the record, Mr. Chairman?

(Discussion held off the record.)

COST OF IMPLEMENTING THE NIXON DOCTRINE

Mr. PASSMAN. It is my understanding that Secretary Laird, upon leaving the hearing room, or some time thereafter, indicated that there would be a need for a supplemental of $1 billion to implement the Nixon policy. Is that correct?

General WARREN. Mr. Chairman, I have not heard him use the billion dollar figure.

Mr. PASSMAN. Some of you heard it on the CBS News, did you not?

Mr. KNAUR. That is right.

Mr. PASSMAN. Whatever the figure may be, as far as the Secretary is concerned he feels that he will have to ask for a supplemental to be able to implement these deficiencies as a result of the reductions made by the Congress.

General WARREN. That is correct.

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

MAP UNEXPENDED BALANCE

Mr. PASSMAN. I have had a lot of experience as chairman of this subcommittee over the 16 years, and some of the greatest exaggerations I have had to deal with were made by the military many years ago. Evidently they did not go over their budget requests with a fine-tooth comb as they may be doing today, because almost without exception, even after reductions by this committee and the Congress, we left the program grossly overfunded.

In that connection, what will be your unobligated funds out of the fiscal 1970 appropriation?

General WARREN. Sir, I would estimate approximately $5 million because there is a several-week lag in completing the bookkeeping on an annual program after the fiscal year end.

Mr. PASSMAN. Would it be that you have certain items that required a greater amount than this, and you could not partially fund them?

General WARREN. There are many items we would like to fund, Mr. Chairman. We do not do so because we cannot know in advance precisely how much we will have left at the end of the year because of our lag in accounting procedures; and we must avoid exceeding the appropriation.

Mr. PASSMAN. Can you tell in the total of undisbursed funds to the credit of the military assistance program?

General WARREN. Sir, the total unexpended balance for the Military Assistance Program is estimated to be $629.1 million as of June 30, 1970.

PERCENTAGE AVAILABLE FOR INVESTMENT

Mr. PASSMAN. General Warren, I notice on page 13 of the justifications that out of the $183,200,000 tentatively allocated for East Asia for fiscal 1971 that only 4 percent of this total is programed for investment purpose. Is that correct?

General WARREN. That is correct, sir.

Mr. PASSMAN. Does that mean that 96 percent of the estimate is for maintenance and operation of the old equipment?

General WARREN. It is for maintenance and operation primarily, plus supply overhead costs and training.

Mr. PASSMAN. Can you break out the training cost from the other?

General WARREN. Yes, sir.

Mr. PASSMAN. What would be the total for training?

General WARREN. The total for training in East Asia is $9,295,000.

Mr. PASSMAN. Percentagewise?

General WARREN. Five percent, sir.

Mr. PASSMAN. So it means, then, that training and investment—in business we would call it capital investment, wouldn't we——

General WARREN. Yes, sir.

Mr. PASSMAN (continuing). Is 9 percent of $183,200,000, and 91 percent is for maintenance and operation of equipment?

General WARREN. Yes, sir; including supply operations.

Mr. PASSMAN. If you could just replace all of the obsolete equipment with brandnew equipment and start off tomorrow morning with brand new, up-to-date equipment what would the maintenance and operation cost be?

General WARREN. In East Asia only, sir?

Mr. PASSMAN. The total. We are trying to find out the difference in the cost of operating modern and new equipment as opposed to obsolete equipment.

General WARREN. Sir, I do not have a figure, but it would be probably much less because a great deal of our money is now going to repair obsolete equipment such as trucks, tanks, and so on.

Mr. PASSMAN. That is the point. Sometimes it is more expensive to operate obsolete equipment than it would be to buy new equipment.

General WARREN. That is correct.

Mr. PASSMAN. I know in my small business operations years ago I would replace my delivery trucks every year. For certain other machinery it was cheaper to replace than to keep it up. I don't know whether or not this is true in the military or not.

General WARREN. Yes, sir; it is.

Mr. PASSMAN. The most expensive thing in the world is to try to maintain wornout equipment, is it not?

REDUCTION IN FORCES POSSIBLE AS A RESULT OF MODERNIZATION

General WARREN. Yes, sir; and by modernizing, it is possible—and our allies recognize this—to reduce their total forces.

Mr. PASSMAN. And you also have a personnel consideration there in the way of saving money?

General WARREN. Yes, sir.

Mr. PASSMAN. General, if we think of the forward defense countries—China, Korea, Greece, and Turkey—we know that especially in China and Korea that most of their equipment is obsolete. Do you have any way of knowing the type of equipment that the enemy may have, or whether or not he, too, is depending on obsolete equipment or whether he is updating and modernizing forces?

General WARREN. Sir, we know in general what the enemy has. There is a lot of modern equipment in North Korea and in North Vietnam. I have a complete list of what they have.

Mr. PASSMAN. How about Red China?

RED CHINESE MILITARY CAPABILITY

General WARREN. I do not have the Red Chinese order of battle. It is much larger than that of the Republic of China.

Mr. PASSMAN. I wonder if it is more modern than that of China?

General WARREN. They have more modern aircraft and ships.

Mr. PASSMAN. You mean the enemy?

General WARREN. Yes, sir; Red China.

Mr. PASSMAN. Red China has more modern aircraft and more modern ships than the Republic of China?

General WARREN. Yes, sir.

Mr. PASSMAN. And a much greater force?

General WARREN. Yes, sir.

IMPORTANCE OF REPUBLIC OF CHINA

Mr. PASSMAN. Which means that, without being anti-China or pro-China but being an American, if we meant what we said when we made that $5.6 billion investment in China, with $2,900 million of it as military aid—if we meant what we said then, that we needed a free China for that part of the world and for our own security, then it is time that we have a good hard look at this situation, is it not?

General WARREN. Yes, sir.

Mr. PASSMAN. Why can we not get it through some of the hardheads downtown that we either ought to pull out or protect the $5.6 billion investment we put in there?

General WARREN. Sir, there are numerous studies underway which relate to this problem.

Mr. PASSMAN. I would not want any witness to get the idea that I am any more pro-China than I am pro-any other country which wants to support the policies of our country and to stand up and be counted when the chips are down.

I have read the record of the Republic of China and it would appear to me that they are the one country on the face of the earth that for all of these many years has never complained or disagreed with our foreign policy.

Have you ever read the record of how they have cooperated with us even when we were doing things that they thought were against the welfare of their country?

General WARREN. Yes, sir; I have, and I also read recently that they appear to be turning more and more to other countries right now to broaden their international relationships, which is probably a healthy action.

Mr. PASSMAN. To other friendly countries?

General WARREN. Yes, sir.

Mr. PASSMAN. Certainly it is. But we have an awful lot at stake there, do we not?

General WARREN. We do.

NORTH AND SOUTH KOREAN AIR CAPABILITIES

Mr. PASSMAN. I believe we have an awful lot at stake in Korea, do we not?

General WARREN. Yes, sir.

Mr. PASSMAN. We were told, and if it is classified it will have to come out of the record, that the air force of South Korea is inferior to the air force of North Korea.

General WARREN. It is, sir. South Korea has around ——— aircraft, only ——— of which are jet fighters, while North Korea has ——— combat jet fighters alone, plus a lot of other miscellaneous types.

IMPLEMENTATION OF THE NIXON DOCTRINE

Mr. PASSMAN. If I understand the Nixon Doctrine, it means that he plans to update the military complex of our allies and rely greatly upon them to furnish the personnel to use the equipment that we will furnish.

General WARREN. Yes, sir.

Mr. PASSMAN. I think that is a tremendous step in the right direction. I would not want to involve the witnesses in any combat schemes but would you know of any reason why a well-trained South Vietnamese soldier should not fight just as well as a well-trained North Vietnamese soldier?

General WARREN. No. sir.

Mr. PASSMAN. Same blood, same language?

General WARREN. Yes, sir.

Mr. PASSMAN. I think the President of the United States recognizes that, and I think that is why he is trying to get us out of there. I am as thoroughly convinced that President Nixon has a positive plan to get us out of South Vietnam as I am that I am sitting at this table. I think the President knows very well that there is no reason why a South Vietnamese soldier, properly trained, should not fight just as well as a North Vietnamese soldier. That would also be true in South and North Korea, would it not?

General WARREN. That is correct.

EFFECTIVENESS OF GRC AND ROR FORCES

Mr. PASSMAN. But we have to be completely fair as to South Korea. They have trained their men to fight, and they are great soldiers, are they not?

General WARREN. Yes, sir, they have excellent military forces.

Mr. PASSMAN. And even though ——— China's ———. I believe their forces are well trained, too, are they not?

General WARREN. Very definitely.

Mr. PASSMAN. So we do have some support in that part of the world from the Republic of China and from the Republic of Korea?

General WARREN. Yes, sir.

Mr. RIEGLE. The population of South Korea is approximately twice that of North Korea?

General WARREN. I believe that is correct.

Mr. RIEGLE. The population of South Vietnam is roughly the same as the population of North Vietnam?

Mr. CHAPMAN. That is correct.

Mr. RIEGLE. So you have a substantial manpower edge in Korea?

General WARREN. Yes.

NORTH KOREAN AIR STRENGTH

Mr. RIEGLE. Apparently you are still down in terms of planes. The North Koreans have an edge in planes?

General WARREN. Yes.

Mr. PASSMAN. Not an edge, but it is superior.

General WARREN. Superior. They have not only ——— as many aircraft ———.

SOUTH KOREAN AIR DEFENSE

Mr. RIEGLE. Is it impossible for us to put an air defense system in South Korea that can defend against this threat or would you have to have aircraft in the hands of the South Koreans as well?

General WARREN. They have an air defense system. We hope to improve it. I do not think exists an air defense system that is capable of completely protecting South Korea. It certainly can deter a desire to attack, but no air defense system has ever yet stopped a determined jet attack.

NORTH KOREAN MOBILIZATION

Mr. RIEGLE. Is North Korea more fully mobilized in terms of ready combat manpower that South Korea?

General WARREN.———. I think most North Korean males have some type of reserve or other military status. However, actual present strength of the Army of North Korea is ——— while there are ——— in the South Korean Army.

Mr. RIEGLE. So South Korea actually has a substantially larger combat ready force than North Korea.

Mr. PASSMAN. The General made a very excellent point with respect to numbers. However, on the other hand, we might as well face up to this—the South Vietnamese have been slow in training their men to fight. Is that no so?

General WARREN.———.

FUNDS FOR VIETNAMIZATION OF AID PROGRAMS

Mr. PASSMAN. I am willing to be ashamed to think that we sacrificed 40,000 of the youth of this country whereas under properly planned programs, and inasmuch as they were fighting to save their own country, that the South Vietnamese could have been doing their own fighting. I think we are giving them more aid than they can absorb. I think we are making a horrible and terrible and regrettable mistake by permitting those people to wax fat in wealth. I understand there are things you can buy in Saigon that you cannot buy in New York City. You just pour aid in by the millions of dollars. I think it is extremely regrettable that we have permitted that to happen. I will be a disillusioned American if the President changes his policy and program to get out of South Vietnam.

We will furnish the money, we will furnish the training, but they will have to do their own fighting. If they are not willing to fight, then they suffer the consequences. I cannot see the President's program any other way when I look at the numbers of troops he is pulling out. I am accepting it, I am talking on that basis, and I have built my enthusiasm on that basis. However, that still does not justify the tremendous amount of waste in our economic aid program which we have in South Vietnam. From the reports I get, and they have not been successfully refuted, it is frightening.

I went over the deep end in my recommendation last year on the Supporting Assistance appropriation because of the so-called need for funds for the Vietnamization program. I could have cut the appropriation estimate in half and still could have slept well. I don't know why they need caviar and fillets to be happy.

PHILIPPINES

Mr. PASSMAN. For the Philippines, the 1971 estimate is ———. That is a ——— the fiscal 1970 program. Is that correct?

General WARREN. Yes, sir.

Mr. PASSMAN. What kind of equipment are you furnishing the Philippines?

General WARREN. The major investment items in the 1971 program are ——— aircraft and ——— and ——— plus a wide variety of replacement or spare parts for previously provided equipment. The primary activities are in engineering and in antismuggling activities.

POPULATION OF THE PHILIPPINES

Mr. PASSMAN. What is the population of the Philippines?

General WARREN. I do not have that figure, sir.

Mr. CHAPMAN. The population of the Philippines is 37,920,000.

UNITED STATES-PHILIPPINE RELATIONS

Mr. PASSMAN. I believe we think of the Philippines as our own flesh and blood because at one time they were a possession of the United States.

General WARREN. I know many Americans who served there who think very highly of them, sir.

Mr. PASSMAN. That was not my question. I am sure they do. I say that the Philippines were originally part of the United States as a possession.

General WARREN. Yes, sir.

Mr. PASSMAN. I think we have given them approximately $2 billion in economic aid and military assistance.

General WARREN. I don't believe formal economic aid and military assistance has been nearly that high, sir.

Mr. PASSMAN. That is what is listed in this source document. In addition to that assistance, they have had a tremendous windfall from our military installations and personnel stationed in the Philippines. Is that not true?

General WARREN. Yes, sir.

Mr. PASSMAN. They are not acting too much like well behaved former children of the United States at this time, are they?

General WARREN. Recently there has been a series of riots. ———. There is no serious threat to our activities in the Philippines.

Mr. PASSMAN. They stoned the Embassy, did they not, and tore it up?

General WARREN. Yes, sir.

Mr. PASSMAN. That is a pretty good threat. If somebody knocked off the front of my house and tore up the kitchen and blew off the roof I would think it was getting pretty close to a threat. Wouldn't you?

General WARREN. Yes, sir.

Mr. PASSMAN. Soldiers are mighty brave, but I didn't know you were that brave, not to accept what they have done as a threat.

COMMUNIST THREAT TO THE PHILIPPINES

The Philippines are a lot closer to the Communist nations than we are, are they not?

General WARREN. Yes, sir.

Mr. PASSMAN. So communism is a greater threat militarily in the Philippines than to the United States. Is that right?

General WARREN. Yes, sir.

PHILIPPINE PARTICIPATION IN VIETNAM

Mr. PASSMAN. How many soldiers do they have at the present time in Vietnam?

General WARREN. The Philippines withdrew two engineering battalions which totaled around——

Mr. PASSMAN. They do not even have a Philippine cook left there, do they?

General WARREN. That is not quite right. PHILCON, a medical detachment, remains.

Mr. PASSMAN. Are they fools or do they want to live under the umbrella of communism? They have more to lose than we do because they are closer to the threat of communism.

General WARREN. There is a Philippine medical detachment still in South Vietnam.

Mr. PASSMAN. They have not secured passage out yet, apparently.

Mr. RIEGLE. They cannot find it.

Mr. PASSMAN. This is not a good situation. The military help they have given us is practically zero, is it not?

General WARREN. The 2,000-man Philippine Civic Action group made a significant contribution in Vietnam.

Mr. PASSMAN. What is our total U.S. military strength in the Philippines?

U.S. PERSONNEL ON THE PHILIPPINES

General WARREN. Sir, we have ———.

Mr. PASSMAN. Are we using a very large number of our military personnel to protect the civilians, including our Ambassador and his staff?

General WARREN. No, sir. Almost all of these are at the Clark Air Force Base, which is one of the biggest depot and supply areas in the world.

PROTECTION OF U.S. EMBASSY

Mr. PASSMAN. I know that, but who is protecting our Ambassador and his personnel from these minor incidents like blowing up the Embassy?

General WARREN. Just the normal Embassy small detachment of Marines—and, we hope, of course, the local police.

Mr. PASSMAN. Did the local police give any protection when they had all this outbreak recently?

General WARREN. I believe they eventually broke up the last disorder.

Mr. PASSMAN. You used the word "eventually." They were a little slow in stopping the outbreak?

General WARREN. I don't know the timing of that attack on the Embassy, sir.

Mr. PASSMAN. I don't think you like this a bit better than I do. Off the record.

(Discussion held off the record.)

UNITED STATES-JAPANESE MUTUAL DEFENSE ACTIVITIES

Mr. PASSMAN. Japan and that part of the world is important. Do we have a military program in Japan or do we make any contribution to their forces, General Warren?

General WARREN. Sir, we no longer have any grant-aid program for Japan. It is one of our major military sales recipients. We have also just consummated an agreement whereby they will coproduce F–4's in Japan.

They have no undelivered balance to speak of, just a few items.

We recently realined the military assistance group, sir. It is now incorporated into the Embassy and redesignated The Mutual Defense Assistance Office. Its function is to coordinate sales, and to supervise residual MAP activities related to the grant aid materiel program which has been terminated.

(Discussion held off the record.)

JAPANESE SELF-DEFENSE EFFORT

Mr. PASSMAN. What part of Japan's GNP is she spending on her military forces? I believe her military forces are for internal protection, are they not?

General WARREN. Yes, sir. Their Constitution limits their military activities to self-defense.

Mr. PASSMAN. What is the cost of Japan's defense?

General WARREN. Just under 1 percent of their gross national product.

Mr. PASSMAN. What percentage of our gross national product goes for defense?

General WARREN. About 9 percent.

Mr. PASSMAN. Does that include military assistance?

General WARREN. Yes, sir.

Mr. PASSMAN. The percentage is what is important.

General WARREN. I will have to supply it for the record, sir.

(The information follows:)

The Japanese defense budget for the Japanese fiscal year April 1 to March 31, 1969, totaled $1.344 billion which represented 0.84 percent of GNP. For the Japanese fiscal year 1970, the defense budget increased about 18 percent to $1.582 billion which represents 0.78 percent of the projected GNP for 1970.

Mr. PASSMAN. Ours is about nine times that of Japan.

General WARREN. At least.

EAST ASIAN TROOP CONTRIBUTION IN VIETNAM

Mr. PASSMAN. What countries in this region are supplying troops to assist with the war in Vietnam and how many troops are they supplying?

General WARREN. The four East Asian and Pacific countries currently contributing troops to assist the Government of Vietnam are: Australia, 8,000; New Zealand, 550; the Republic of Korea, 50,000; and Thailand, 11,500. In December 1969 the Philippine Government withdrew virtually all of the remaining 1,500-man military engineering and civic action group.

NEED FOR REPLACEMENT OF OBSOLETE EQUIPMENT

Mr. PASSMAN. I mentioned earlier that the justifications indicate that of the $183,200,000 tentatively allocated for East Asia in fiscal year 1971, only 4 percent is programed for investment.

Is most of the equipment in these countries obsolete and in need of replacement?

General WARREN. May I supply that for the record, sir?

(The information follows:)

Much of the major equipment on hand is approaching wearout and obsolescence and some is already obsolete. For example, ——— for these countries falls into this category. The vehicles procured in Japan ——— and are rapidly becoming uneconomical to maintain. World War II vehicles ——— are obsolete and maintenance support is becoming increasingly expensive and difficult to obtain. Attrition replacements will be necessary in the near future in order for these countries to maintain their current operational capabilities. The fact that only 4 percent of the East Asia and Pacific program has been allocated for investment, in the face of an investment shortfall of over ——— points up the hard decisions involved in developing a program within the $350 million authorized for fiscal year 1971 and the essential need of retaining present forces in an operating condition.

Mr. PASSMAN. On page 14, you indicate that ——— but there are no trainees listed to be trained. Would you please explain?

General WARREN. ———.

REGIONAL COSTS

Mr. PASSMAN. You also list $99,000 for "Regional Costs" in fiscal year 1971. What do these costs cover?

General WARREN. The estimated fiscal year 1971 "Regional Costs" of $99,000 cover salaries, allowances, and travel of personnel that deal directly with MAP training activities in the CINCPAC area.

UNDELIVERED BALANCE FOR JAPAN

Mr. PASSMAN. I note from the tables on page 15 that there is an estimated undelivered balance of——— to the credit of Japan.

What does this balance consist of, and why do you have such a balance since we have not provided military assistance to Japan for several years?

General WARREN. The undelivered balance for Japan is the remaining U.S. share for the ——— system.

Under the terms of the agreement between the Government of Japan and the Government of the United States, the schedule of expenditures is tied closely with the Government of Japan budgetary action for fiscal year 1967-fiscal year 1971 time period.

FISCAL YEAR 1971 PROGRAM FOR CHINA

Mr. PASSMAN. The first country with a materiel program is the Republic of China, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

I note you plan to offer the Republic of China a military credit sales program of ———.

What do they plan to purchase with these credit sales?

General WARREN. The Republic of China plans to utilize the fiscal year 1970 ——— credit for the following purchases: *a.* NIKE equipment and associated support; *b.* continuation of the helicopter coproduction program currently underway; *c.* continuation of the vehicle coproduction program; *d.* combat vehicles, and *e.* F–104 aircraft modernization programs.

FISCAL YEAR 1971 PROGRAM FOR INDONESIA

Mr. PASSMAN. The next country in the east Asia region is Indonesia, for which ——— is estimated for the fiscal year 1971 program, a ——— the current fiscal year 1970 program.

Since this program is designed more toward the civic action role, why are you programing ——— aircraft for fiscal year 1971?

General WARREN. Based on an exchange of notes with Indonesia in April 1969, the United States agreed to provide a squadron of T–41 trainer aircraft on the same terms as those incorporated in the April 1967 agreement for United States military assistance for a civic action program. This decision was based on the essentiality of air transportation to a viable civic action program in the outer islands and the associated need for a continuing flow of trained pilots into the Indonesian Air Force. Therefore, ———.

FISCAL YEAR 1971 PROGRAM FOR KOREA

Mr. PASSMAN. The next country is Korea, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

Out of the total estimate for fiscal year 1971 of ——— will be programed for new equipment. Like the Republic of China, Korea is classified as a forward defense country and considered to be strategically important to the United States, is that correct? Would you please comment on the reason for this low investment in new equipment?

General WARREN. ———. Part of the reason for the increased maintenance costs is due to the fact that much of the equipment in the Korean forces inventory is of World War II or Korean war vintage. The age of the equipment means that a greater effort must be devoted to keeping the equipment operational.

Mr. PASSMAN. What equipment wil be purchased with the ———.

General WARREN. ———. This program encourages the ROK's to turn in obsolete and unserviceable equipment while at the same time contributing to improved morale of ROK forces.

SOUTH AND NORTH KOREAN MILITARY CAPABILITIES

Mr. PASSMAN. General, how would you evaluate the South Korean military capabilities as compared to the North Korean capabilities?

General WARREN. North Korea's regular armed forces, totaling about ——— men, are adequately equipped mainly with modern Soviet equipment. While the Republic of Korean maintains a military force of some ——— men much of the armed forces equipment is obsolete. Each side has the capability to launch an attack of significant proportions, but their ability to continue operations without outside assistance is severely limited. Overall, neither of the two opposing Korean forces has a decisive edge in its capability to conduct a sustained offensive operation.

NEED FOR MODERNIZATION OF ROK FORCES

Mr. PASSMAN. You state in the justifications this request will ———. Would you please tell the committee what equipment is critically needed? Are you saying that the equipment Korea now has is obsolete?

General WARREN. However, fund limitations have not permitted achievement of planned modernization over the past several years while at the same time costs of necessary operation and maintenance has increased ———.

DMZ INCIDENTS

Mr. PASSMAN. What have been the number of incidents along the DMZ this past year?

General WARREN. There were 98 incidents along the DMZ in calendar year 1969. In these incidents, 10 United Nations Command military personnel were killed and 22 wounded.

SOUTH KOREAN ECONOMIC CAPABILITY TO FINANCE MORE DEFENSE COSTS

Mr. PASSMAN. In the past several years the Korean economy has made a remarkable development. Do you now have an approved plan to reduce military aid to Korea in the years ahead?

General WARREN. Given the constantly increasing improvement in North Korean military capability and continued truculence of the North Korean regime, I do not foresee any justification for a decrease in the scope of military assistance to Korea. Indeed, the Nixon Doctrine would indicate that it would be proper to plan on increased assistance in the near future.

Mr. PASSMAN. With the large growth in the Korean economy, why is there a proposed ——— in the military sales program in fiscal year 1971 and a proposed ——— in fiscal year 1971 for cash military sales? It seems that if Korea is prospering as the AID people have told us, they would be able to purchase more equipment with their own resources. Would you comment?

General WARREN. Economic forecasts for Korea are not so optimistic as to permit us to expand credit assistance in fiscal year 1971. The programs shown were illustrative only and were based primarily on Korean expressed interests in using their own resources to fund a rifle production facility. As the economy improves an increasing share of the costs of defense will be shifted to the Korean budget.

U.S. SUPPORT OF ROK FORCES IN VIETNAM

Mr. PASSMAN. How much is in this budget, if any, for fiscal year 1971 to support ROK forces in Vietnam?

General WARREN. There are no funds in the fiscal year 1970 MAP for the direct support of Korean forces in South Vietnam.

HARDENING OF AIRBASES

Mr. PASSMAN. Has South Korea started to step up the hardening of their airbases this past year? How does this compare with North Korea at this time?

General WARREN. ———.

FISCAL YEAR 1971 PROGRAM FOR THE PHILIPPINES

Mr. PASSMAN. The next country in the East Asia area is the Philippines, for which the fiscal year 1971 estimate is ——— the fiscal year 1970 program.

Is the current civil unrest an indication that the Philippine Government might be willing to reject our base rights?

General WARREN. I do not think that the current civil unrest is an indication that the Philippine Government is willing to reject our base rights. The thrust of the current demonstrations has been primarily against the very real economic and social problems existing in that country and only secondarily against the U.S. presence there. ———.

OBJECTIVES OF FISCAL YEAR 1971 MAP

Mr. PASSMAN. Is most of the fiscal year 1971 program to be used for internal security and antismuggling operations?

General WARREN. The great bulk of the items to be supplied under the fiscal year 1971 military assistance program is for internal security and antismuggling operations. ———. Certain items, such as transport vehicles and small arms, can be used of course for other purposes besides internal security.

PHILIPPINE TROOPS IN VIETNAM

Mr. PASSMAN. At the present time the Philippines has no combat troops in Vietnam, is that correct?

General WARREN. The Philippine Civic Action Group (Philcag) of 1,500 men was withdrawn from Vietnam in December 1969. However, a small contingent of 131 men still remain there.

NONREGIONAL PROGRAMS

Mr. PASSMAN. General, you have the nonregional programs. The 1971 estimate is $23,934,000. That is a reduction of $3,398,000 below that of fiscal 1970, I believe.

General WARREN. Yes, sir.

Mr. PASSMAN. General, would you briefly explain how the decrease of $3.4 million was accomplished?

General WARREN. Sir, the reduction of $3.4 million in nonregional costs between fiscal year 1969 and fiscal year 1970 occurred essentially in three activity areas of our nonregional programs:

1. Because of the reduction in MAP authorization and appropriation, the fiscal year 1971 production contract for F–5 aircraft has not

been finalized and, therefore, any additional amounts, if necessary, have not been determined which reduces our fiscal year 1971 non-regional program by $1,215,000.

2. Our requirement for phaseout country supply operations funding in fiscal year 1971 is reduced by $1,500,000 reflecting the impact of fiscal year 1970 deliveries to those countries still having undelivered balances in fiscal year 1971.

3. We are estimating a $600,000 reduction in administrative expenses for fiscal year 1971. This reduction anticipates the savings to be realized through personnel reductions as offset by the current price and pay inflationary trend.

F-5 AIRCRAFT ON PROGRAM

Mr. PASSMAN. Does the elimination of funds for "Aircraft Technical Manuals" in the fiscal year 1971 program indicate that no F–5 aircraft are programed for the various countries in the proposed fiscal year 1971 presentation?

If this is true, why are we not at least trying to update the four forward defense countries' air forces at this time?

General WARREN. There are F–5 aircraft proposed for various countries as indicated in the fiscal year 1971 presentation.

The maintenance of current technical data is an essential requirement but because of the reduction in MAP authorization and appropriation, the fiscal year 1971 production contract for F–5 aircraft has not been finalized. Amounts necessary will be determined at the time the contract is finalized and will be reprogramed to satisfy this requirement.

Every effort is being made to update the forward defense countries, however, because the majority of the program is allocated to these countries; they had to absorb the greatest share of the reduction and therefore the amount that can be allocated for modern equipment is relatively small.

SUPPLY OPERATIONS FOR PHASE-OUT COUNTRIES

Mr. PASSMAN. General, would you list for the record the names of the 12 phase-out countries for which you are requesting $1,908,000 for supply operations?

General WARREN. Supply operations costs for the 12 phase-out countries shown in the "Non-Regional" line for fiscal year 1971 are:

Country	*(In thousands) Fiscal year 1971*
	$
Japan	6
India	106
Iran	1,112
Jordan	137
Libya	31
Morocco	66
Argentina	56
Brazil	115
Chile	93
Peru	81
EUCOM	12
Total	$1,908

ENGLISH LANGUAGE TRAINING

Mr. PASSMAN. Under the heading "Other Training Costs", you indicate that funds are provided for English language training overhead costs.

Does this mean we have to pay some of the bill to teach the foreign military students English before they can be trained?

General WARREN. English language training overhead costs included in "Other Training Costs" cover the funding provided to the Defense Language Institute for monitoring the MAP English language training program.

It is true that MAP does pay some of the bill for English language training.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. For administrative expenses I note you are requesting $18 million in fiscal year 1971, a decrease of $600,000 below the fiscal year 1970 level. Would you please explain how you achieved this decrease?

General WARREN. Sir, the decrease of $600,000 below the fiscal year 1970 level for administrative expenses reflects our estimated savings resulting from worldwide personnel reductions as offset by inflationary price and pay trends.

Mr. PASSMAN. Would you also comment on the $1,800,000 request for reimbursement to the State Department and explain how this reimbursement for services differs from the $1,700,000 item which we previously discussed?

General WARREN. The $1,800,000 request for reimbursement to State Department is the estimated cost of State Department services to be provided our MAAG's in fiscal year 1971. This cost is associated only with the personnel categorized as "administrative" in the MAAG's as opposed to those categorized as "trainers."

The $1,700,000 represents a similar estimate for State Department services provided our MAAG's associated with trainers in these MAAG's. The two estimates, that is, $3,500,000, when combined, are the total estimated cost of the services for which State Deparment must be reimbursed. The table provided below is the estimated reimbursement costs of such services associated with each MAAG for fiscal year 1971. Also, the Bureau overhead costs not directly assignable to an individual MAAG but for which we reimburse State have been added to account for the total reimbursement.

Estimated reimbursement of State Department services in support of MAAG activities

Bellux	$41,179
Denmark	42,876
France	66,126
Germany	375,686
Greece	254,426
(Regional Communication Center)	112,361
Italy	145,223
Libya	213,981
Morocco	80,514
Netherlands	61,001
Norway	33,285
Portugal	30,550
Spain	8,370
Tunisia	47,154
Congo	266,771
Ethiopia	141,783
India	46,545
(Regional Communication Center)	16,137
Iran	105,202
Jordan	37,153
Liberia	45,599
(Regional Communication Center)	93,729
Nepal	20,364
Nigeria	6,378
Pakistan	40,559
———	———
Indonesia	150,000
Japan	68,507
Philippines	18,710
Taiwan	15,582
Korea	522
Dominican Republic	116,148
Peru	25,000
Bureau overhead	670,373
Total reimbursement	3,500,000

ADVISORY GROUPS IN COUNTRIES NO LONGER RECEIVING MAP

Mr. PASSMAN. Would you please list the number of military and civilian personnel we presently have on the rolls that are assigned to countries where we do not now have a military assistance program?

MAP PERSONNEL AUTHORIZED IN MAAGS AND MILGROUPS WITHOUT MILITARY ASSISTANCE PROGRAM, COST TO MAINTAIN SUCH PERSONNEL, AND DATE MILITARY ASSISTANCE PROGRAM WAS PHASED OUT

Country	Personnel authorized July 1, 1970				Estimated cost per country, fiscal year 1971 (dollar, thousands)			Year MAP phased out
	United States		Foreign Nationals	Total	Total	Country share	U.S. share	
	Military	Civilian						
Belgium/Luxembourg	16	3	6	25	———	———	———	1965
Denmark	16	3	6	25	———	———	———	1967
France	7	1	7	15	———	———	———	1964
Germany	36	10	12	58	———	———	———	1964
Italy	19	3	3	25	———	———	———	1965
Netherlands	19	1	5	25	———	———	———	1965
Norway	17	3	8	28	———	———	———	1967
Japan	5	5	6	16	———	———	———	1967
Costa Rica	4	0	1	5	———	———	———	1967
Total	139	29	54	222	———	———	———	

Please list each country separately, the cost per country to maintain these people, and the date the military assistance program was phased out. Why is it necessary to maintain these advisory groups in these countries?

(The information follows:)

MAAG'S WITHOUT A MILITARY ASSISTANCE PROGRAM

U.S. Military Assistance Advisory Groups (MAAG's) are necessary in countries where military assistance grant aid programs have terminated to perform the following functions:

(1) Report on the utilization of military assistance grant aid materiel.
(2) Arrange for the disposition of MAP materiel excess to the requirement of the particular country.
(3) Administer the foreign military sales program and assist in the development and implementation of cooperative logistic arrangements.
(4) Arrange for the receipt and transfer of undelivered MAP materiel.
(5) Provide Department of Defense representation to host government.
(6) Provide military advice to Chief of U.S. Diplomatic Mission in the country.
(7) Provide point of contact for coordination of host country assistance to third countries.

Mr. PASSMAN. Mr. Shriver, do you have any questions on the country programs?

POSSIBLE PROGRAM AREAS REDUCTION

Mr. SHRIVER. Yes. If Congress does find it necessary to cut this program somewhat, in which parts of this program would you make the first cuts?

General WARREN. If Congress finds it necessary to cut the proposed fiscal year 1971 program, the reduction must come from the forward defense countries which comprise 56 percent of the total obligational authority for operating and investment. The remaining 44 percent should not be cut as it is comprised of training 9 percent, supply operations 16 percent, nonregional operating expenses 4 percent, and investment and operating expenses for base rights countries 8 percent, and other countries 7 percent.

NIXON DOCTRINE AND MILITARY ASSISTANCE PROGRAM

Mr. SHRIVER. There are several confusing and conflicting statements throughout the justifications and the statements concerning the Nixon doctrine and the role of military assistance and training. As I understand it, the Nixon doctrine basically means a lowered U.S. profile in the affairs of other nations. Page 1 of the book says this is somewhat dependent on "allied and friendly armed forces protecting their own homelands from external aggression and externally supported internal subversion." Page 8 of the book says the purpose of military training in the lesser developed countries is "to help achieve and maintain internal security," with no mention of "external support."

The military assistance programs in Latin America are basically

training programs, are they not? On page 820 of last year's hearings, you told me that in your opinion, "there is no substantial external threat to any of the countries in Latin America."

All of these statements, along with saying the military assistance program is vital to the Nixon doctrine, are apparently conflicting. Would you comment on this and explain further our role in the internal security affairs of all of these countries.

General WARREN. I would agree that the Nixon doctrine basically does mean a lowered U.S. profile in the affairs of other nations. The gist of the Guam statement, as you recall, and of the President's foreign policy address in February was that the United States would in no sense withdraw from international responsibilities or commitments, and would indeed actively promote, engage in and contribute resources to the promotion of development and international cooperation. He emphasized as well the recognition that whether the matter be economic development, social reform or security, mobilization of a nation's own energies is critical to success and no kind of external assistance will in the long run rescue a half-heartedly committed nation from failure.

The apparent conflict you define may arise over the distinction between a "substantial external" threat and the threat of "externally supported internal subversion." In the context of my statement with reference to Latin America on page 820 of last year's hearing the first phrase would describe the existence of a threat of regular overt military attack from outside the hemisphere. The latter refers to a situation in which an external source provides support, commonly covert, to an insurgent effort. Such an insurgency might be locally manned and only partially dependent upon the external assistance.

It is in principle consistent with the Nixon doctrine that we give security assistance to governments confronted by these lower level, less clear-cut types of aggression. The United States should be prepared to furnish military and economic assistance when requested and insofar as we are satisfied that the threatened nation is making a serious, sustained effort to solve its own problems. We would expect that nation to carry the manpower burden for its defense.

Political and social instability characterize every country in Latin America to some degree and are great enough to make most societies in that important area vulnerable to serious disruption by externally supported insurgent activities. There are such activities in several countries now. Cuba, despite some setbacks of its attempts to undermine Latin American governments during the past decade, continues to provide propaganda, training and financial support to Latin revolutionary groups and Castro has not renounced his policy of favoring and encouraging armed revolution.

The problem of "internal security" for a Latin American government is thus finding solutions for the basic social and economic problems which give rise to political instability while facing the continuing

possibility that organized insurgent violence will exploit the instability to frustrate or negate its efforts. As indicated in the book, 61 percent of the proposed program for Latin America is now in training. In only four countries does training constitute less than half the program and in just one of these is it a small part of the program. Military Assistance Programs can be implemented in a manner consistent with the lowered profile implicit in the Nixon doctrine.

CONTROLS OVER MILITARY SALES PROGRAM

Mr. SHRIVER. You say your close controls will prevent any sales which might contribute to arms races among neighboring nations. However, in fiscal 1971, you are planning sales to El Salvador and Honduras; India and Pakistan; Israel, Jordan, Lebanon and Saudi Arabia; and Greece and Turkey. At the first sign of conflict, you always deny that these arms had anything to do with these countries' ability to wage war, yet any supplies of a military nature can be useful in war, can they not?

In most instances these are small sales. Why not forego them?

General WARREN. Every one of the countries cited is or has recently been engaged in a localized regional conflict or area of tension. In the case of El Salvador and Honduras, our present policy is to turn down requests for purchase of lethal weapons. All requests from these two countries are carefully reviewed and analyzed on a case-by-case basis to determine whether they meet the criteria of a permissible sale. We believe that the policy of continuing some transactions, albeit small, allows us to exercise some moderating influence and permits us to continue some dialog with the country.

The principal points of the U.S. military supply policy for India and Pakistan, announced in April 1967 are:

(*a*) Termination of grant military assistance.

(*b*) Withdrawal of U.S. MAAG from Pakistan and USMSMI from India.

(*c*) Cash sale on a case-by-case basis of ammunition and spares for previously supplied equipment.

(*d*) Cash and limited credit sales of nonlethal end-items and equipment.

(*e*) Consideration of sale or transfer of U.S. origin equipment (including cases where U.S. equity involved) from third countries, when such purchases would contribute to overall reduction of defense spending and limitation of the arms race in South Asia.

(*f*) Continuation on a grant basis of small training programs in the United States for Indian and Pakistani military personnel.

The objectives of this policy are to: restrain military expenditures; limit arms acquisition; promote possibility of understanding between India and Pakistan, and to encourage higher allocation of resources for agriculture and economic development.

With respect to Israel, Jordan, Lebanon, and Saudi Arabia, three principles govern our arms policy in the Near East: (1) to maintain the ability of friendly States in the area to defend themselves against aggression; (2) to avoid any unnecessary stimulus to an arms race in the Near East, and (3) to maintain, through judicious military support, relationships with States which desire friendly relations with the United States and are resisting Soviet and Chinese Communist advances.

The Near East arms problem is basically political. The United States seeks to induce both sides to work out the terms of a peaceful settlement. At the same time we must take into consideration the legitimate security concerns of both Israel and the moderate Arab regimes and the desirability of giving the latter an alternative to accepting arms from the Soviet Union.

The 1967 war and its aftermath brought a major change in U.S. arms policy toward the Near East. Until 1967 we sought to avoid the role of major arms supplier to any State in the area. Now we are virtually the only supplier to Israel while continuing minimum supplies to Jordan, Lebanon, and Saudi Arabia to meet their legitimate requirements for self-defense, internal security, and support of regional stability. We have for several years been assisting the Saudis to modernize their armed forces in order to ward off several tangible threats to Saudi Arabia's territorial integrity.

We continue without success to try to interest the Soviet Union in an arms limitation arrangement, while the Soviets, on the other hand, continue to supply arms, including high-performance jet aircraft, to Egypt, Syria, and Iraq. The Soviets have now more than replenished the Arabs' June 1967 arms losses, in some cases with equipment of higher quality, and are providing extensive training and advisory service, while we have assumed a similar supply role with Israel rather than permit a dangerous imbalance to result.

In support of our NATO defense goals and to assist two of our less developed NATO allies, the United States has supplied most of the Greek and Turkish military equipment through our MAP programs over the years. Greece's recourse to credit sales is a continuing development that was initiated in fiscal year 1969. The growing shift to sales is an indication that our aid programs have been effective and that Greece is increasingly able to meet most of its needs through its own resources. It is quite possible, however, that if there were a renewal of the Greek-Turkish conflict over Cyprus, U.S. equipment would be involved; but both countries are aware of the threat of the loss of MAP if MAP-supplied equipment is converted to purposes other than those for which it was furnished. At the present time, both Greece and Turkey are attempting to improve bilateral relations and have been encouraging local Turk-Greek Cypriot discussions toward a settlement of the Cyprus issue.

AID TO FORWARD DEFENSE COUNTRIES

Mr. SHRIVER. General Warren, we are aware of the steady reduction of the military assistance program, especially since fiscal 1966. I would be interested in knowing the total effect of these reductions and the corresponding adjustments which have been made, such as increased sales, use of excess defense articles, U.S. equipment repair contracts issued to recipient country armed forces, and cost savings resulting from MAP-suggested reductions in forces in several countries. Would you furnish the committee with a table showing the overall effect of these changes on the MAP-recipient countries comparing fiscal 1966 with fiscal 1970?

General WARREN. A major part of the program is devoted to four forward defense countries, China, Korea, Greece, and Turkey, which are directly threatened by Communist bloc forces. Programs for the

remaining countries have been for some time at a minimum level where total phaseout would entail no significantly greater consequences than further reduction. Thus, any substantial reduction in funds requested necessarily must be absorbed by the four forward defense countries. Such reductions obviously must be made in "investment" requirements—equipment needed to complete equipping and replace weapons rapidly approaching wear-out and obsolescence.

In spite of our efforts to offset declining MAP funds with emphasis on FMS and nonreimbursable issues from DOD stocks, we have been unable to halt the steady deterioration of the forces of these forward defense countries through obsolescence and wear-out. This situation is illustrated in the following table which estimates the extent to which high priority investment items (new and modern equipment) were not programed for lack of funds. (Dollars in millions:) China ———, Korea ———, Greece ———, Turkey ———.

China badly needs upgrading of its air defense capabilities; Korean ground forces need to be modernized and its counter-infiltration defense improved; in the case of Greece and Turkey, even though there has been some force improvement, there still remains a need to update and modernize the equipment for all of their forces in order to insure a force that is compatible with the NATO community directed toward the protection of NATO's southern flank.

DETERMINATION OF VALUE OF EXCESS STOCKS

Mr. SHRIVER. On pages 20 and 21 of your statement, you describe the method of obtaining the "utility value" of excess defense articles. You say the overall value of these articles has been determined to be about 30 percent of the original acquisition cost. Have you used this overall 30 percent figure to determine the value of excess stocks which are shown in the tables for individual countries in the justifications? If so, this would not seem to be correct, since each country presumably receives different articles which could have widely different values.

General WARREN. The "utility value" of excess stocks has been used throughout the 1971 Military Assistance Program, and in each case has been computed at approximately 30 percent of analysis cost. I must emphasize that such percentage is based on the analyzation of several substantial groupings of excess stocks previously provided, and are, indeed, an average. The percentage is considered valid across the board, and remains relatively stable in cases of lesser amounts. In the case of individual country programs, there may well be some distortion, considering the differences in type, age, condition, and proposed utilization of the excess stocks. The percentage is, however, accurate in the broad sense, and provides a more realistic presentation, as well as a more precise management tool, than the grossly inflated "acquisition value" previously reported.

NEED FOR PLANES IN THE REPUBLIC OF CHINA

Mr. SHRIVER. A member of my staff was told in Taiwan recently by both United States and Chinese officials that the legislation proposing the sending of a squadron of F–4D Phantom jets to Taiwan came as a complete surprise to all of them. At an unofficial briefing, he was told Taiwan did not need the squadron in view of the offer of the F–104's. We

are still waiting for an official answer to the question of need which is supposed to come as a result of an official MAAG briefing. On the other hand, a member of the ROC Foreign Ministry staff pressed hard for the F–4D's, citing new air force developments rumored to be taking place on the mainland. The picture is as confusing as it was in Congress when the fiscal 1970 bill being considered. Can you enlighten us further on this matter?

General WARREN. ———. A squadron of 18 F–4's plus two attrition aircraft and related equipment would cost approximately $92 million with at least 21 months leadtime. We could see no way that such a costly requirement could be financed from the regular MAP appropriation. Nevertheless, we have sought for some time to upgrade, as quickly as possible, the GRC air defense capability ———.

Therefore, when a squadron of 22 F–104's became excess to U.S. Air Force requirements last year, as a result of Defense budget cuts, the possible use of these assets to meet the modernization needs of the GRC Air Force was recognized. After we obtained the views of the Commander-in-Chief, Pacific, the Embassy in Taipei, and after consultation with the Department of State, the 22 F–104's were offered to the GRC by the U.S. Ambassador and accepted by the GRC Minister of National Defense. These aircraft are compatible with other F–104's previously supplied under MAP and will enable the GRC Air Force to complete the replacement of obsolescent F–86 tactical fighters in its operational squadrons. ———.

Mr. SHRIVER. An article in the Washington Star on March 8 quoted the figure of $20 million as the MAP level for Taiwan in fiscal 1971. This figure is shaded as "security classified" in my justification book along with other information which has regularly been appearing in the press and other places. Would you comment on these security leaks?

General WARREN. You have identified one of our most difficult problems. As you know, it is necessary to provide classified information such as that contained in the program justification book to many who have a requirement for the information.

The Department is continuing to make a vigorous effort to minimize unauthorized disclosures of classified information, but determining the source of such a disclosure when so many persons have had access is frustrating. We believe continued emphasis will result in improvement. Investigation of unauthorized disclosures does serve as a deterrent even if the source of the disclosure is not identified.

SOUTH KOREA'S DECREASE IN MILITARY PURCHASES

Mr. SHRIVER. General Warren, why is South Korea decreasing its military purchases in 1971 rather than increasing them?

General WARREN. Mr. Shriver, as you know, Korea has been and probably will continue to be for sometime, a recipient of large miltary grant aid from the United States. In the past, Korea's economic situation simply has not permitted them to acquire the military materiel that they need on a cash sales basis. The $15 million for fiscal year 1970 and the ——— for fiscal year 1971 that you see in the Congressional Presentation Document on page 10 is for foreign military sales credit. These sums are the estimated funds required by the Koreans to establish a modern rifle and ammunition production facility. More

money is required in the first year for the initial startup costs and we estimate the second year's fund requirements for this facility to be somewhat lower than these initial costs. We hope to offer the necessary credit to the Koreans so that they can pay for the entire amount of dollars required to establish this plant in which modern rifles and the necessary ammunition will be produced. We feel that this is a significant first step in gradually transitioning Korea from military grant aid to cash sales. The quantities, however, are small and we must be careful not to overtax Korea's economic structure and foreign exchange position.

EFFECT OF FUNDING RESTRICTIONS

Mr. SHRIVER. You requested $164 million for Korea last year, so we assume that was the figure you felt was necessary. After congressional action, Korea is to receive $140 million, a reduction of $24 million. As economic and military assistance cuts have gone in the past few years, this was a relatively minor reduction. Therefore, it would seem that the estimated unfavorable effects of this cut described in your statement are grossly exaggerated, or that you underestimated the need in your testimony. After so much money has been spent for military assistance in that country over the years, and with the Korean economy improving rapidly, why would ——— become inoperative and ——— be deadlined in 1 year?

General WARREN. The expected deadline rate is the result of past year reductions as well as the $24 million cut in fiscal year 1970. In the case of vehicles, for example, of the ——— are deadlined now. The deadline rate is expected to increase to ——— as a result of fiscal year 1970 funding restrictions. As MAP appropriations decline, less money is available for filling equipment shortages and a greater share of available funds is required for the maintenance of aging and obsolescent equipment. The additional operational and logistical requirements which must be imposed on the remaining vehicles greatly accelerate their deterioration and drive rising maintenance costs even higher.

INTERNAL SECURITY OF ETHIOPIA

Mr. SHRIVER. We are supposed to be helping maintain internal security with our aid to Ethiopia. ——— Is this type of plane usually used for internal security?

General WARREN. Yes, sir.———

AIRCRAFT TECHNICAL MANUAL

Mr. SHRIVER. On page 75 you describe the Aircraft Technical Manual, but you don't say why no money is being requested for it in fiscal 1971. Why is this?

General WARREN. Current technical data are an essential requirement to support the production and maintenance of any aircraft. Under U.S. contractual procedures, the contractor is required to maintain all drawings, publications and technical orders in an up-to-date status. The contractor furnishes necessary changes and/or revisions to appropriate U.S. agencies and MAP recipients through the life of the contract and for a period of 90 days after all provisioning and

delivery of the last production article have been completed. Because of the reductions in MAP authorization and appropriation, the fiscal year 1971 production contract for F–5 aircraft has been not finalized and, therefore, any additional amounts, if necessary, have not been determined.

TOTAL MILITARY AID

Mr. SHRIVER. On page 1 of the book you say the combined total of grant aid and sales, both FMS and commercial, has averaged about $2.4 million annually for the past 6 years. Is this a misprint?

General WARREN. Yes, that is a misprint and it should read $2.4 billion instead of million.

ECONOMICALLY DEVELOPED COUNTRIES IN FMS PROGRAM

Mr. SHRIVER. Would you please list all the countries that are in your sales program that are listed as economically developed countries in accordance with the Executive order for interest equalization tax purposes?

General WARREN. Yes, sir, I will put that in the record at this point.

(The information follows:)

The economically developed countries in the foreign military sales program are: Austria, Australia, Belgium, Canada, Denmark, France, Germany, Iran, Italy, Japan, Libya, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Saudi Arabia, Spain, Sweden, Switzerland, and the United Kingdom.

FISCAL YEAR 1970 FOREIGN MILITARY SALES PROGRAM IN THE REPUBLIC OF CHINA

Mr. SHRIVER. During a MAAG briefing in Taipei recently, a member of my staff was told that they had received word from Washington to proceed with the fiscal 1970 credit sales which were planned for that country. It was strongly insisted that this was so, even after it was pointed out that Congress had not given final approval to the fiscal 1970 request for foreign military sales. Why would such information be transmitted to them prematurely?

General WARREN. Mr. Shriver, I am not sure when the member of your staff was in Taipei, but you may recall that until January 28 of this year we had continuing resolution authority for our foreign military sales credit program. You will note on page 5 of the congressional presentation document, under China, that we have completed our credit arrangement with that country under contining resolution authority. This was accomplished in early January of this year.

FOLLOW-ON SUPPORT FOR LIBYA

Mr. SHRIVER. Our Government has made quite a case over the sale of Mirage jets to Libya by France. Why, then, are we allowing ——— in U.S. sales of follow-on support to F–5 aircraft to that country?

General WARREN. As you know, Mr. Shriver, we have, in the past, sold a number of F–5 aircraft to Libya on a cash basis. The ——— you cited for cash sales to Libya during 1971 is our estimate of the value of follow-on support that will be required by the Libyans to maintain the aircraft. The nature of our future military assistance and sales

programs is currently under review by the Libyan Government and ourselves. The recently announced French sale of Mirage aircraft and support will obviously have some impact since our primary area of assistance was in support of the Libyan Air Force. ——— We are continuing delivery of items from our earlier sales to Libya. We are also considering, on a case-by-case basis, sale of foreign excess items and items not economically movable in connection with the phase out of Wheelus Air Base.

USE OF BUSES MANUFACTURED IN THE UNITED STATES

Mr. SHRIVER. In an answer inserted on page 800 of last year's hearings at my request, it is stated that despite Public Law 90–500, which prohibited the use of appropriated funds for the purchase, lease, rental, or other acquisition of buses other than those manufactured in the United States the Secretary of Defense issued regulations stating that U.S. buses would be used only when their use "would not be uneconomical or contrary to the national interests of the United States." Without arguing at this point the pros and cons of these "regulations", they do not seem to follow what Congress expressly said in Public Law 90–500. Would you comment on this? Are foreign buses still being used to transport U.S. troops in Vietnam?

General WARREN. The regulations issued by the Secretary of Defense are in accordance with the provisions of section 404 (Public Law 90–500) of the Department of Defense Authorization Act for fiscal year 1969 which provides for such prohibition, "except as may be authorized by regulations promulgated by the Secretary of Defense solely to insure that compliance with this prohibition will not result in either an uneconomical procurement action or one which would adversely affect the national interests of the United States." The regulations prescribed by the Secretary of Defense implement the provisions of the law.

Foreign buses are being used to transport U.S. troops in Vietnam. However, the Department of Defense has embarked on a program of replacing leasing arrangements of foreign-made buses wherever possible. There will be some locations including Vietnam where existing leasing arrangements are sufficiently favorable costwise to justify their continuance. The Department will continue to review its requirement for foreign-made buses overseas and will continue to replace them wherever possible with American-made buses in accordance with the provisions of Public Law 90–500.

TOTAL UNDELIVERED GOODS

Mr. SHRIVER. What is the difference in your undelivered supplies and services, or "the pipeline," between fiscal 1966 and the projected amount in 1971?

General WARREN. The undelivered "pipeline" at the close of fiscal year 1966 was $2,338 million as compared to the projected undelivered pipeline of $542 million at the beginning of fiscal year 1971.

FOREIGN PURCHASES OF PETROLEUM

Mr. SHRIVER. Would you furnish for the record the total expenditures in your program for petroleum products each year since 1968,

including the estimate for 1971, and what percentage of these purchases were obtained from foreign sources?

General WARREN. The total expenditures and percentage of petroleum products purchased from foreign sources were:

Fiscal year	Total expenditures (in millions)	Percent of foreign sources
1968	$19.5	78
1969	20.7	51
1970	18.2	59
1971 (estimated)	15.7	81

COST REDUCTION IN TRAINEE PROGRAM

Mr. SHRIVER. In terms of cost reduction what will be the effect in fiscal 1971 of section 510 of the Foreign Assistance Act of 1969, which limits the number of CONUS trainees in any fiscal year to the number of Fulbright scholars brought to this country in the previous fiscal year?

General WARREN. Our total training program for fiscal 1971 reflects a cost reduction over fiscal 1970 of $2.3 million.

LIMITED U.S. TRAINING PROGRAM

Mr. SHRIVER. On page 3 of the justification, you say that in addition to the 35 regular country programs, 11 countries may be offered small amounts of training in the United States for a few of their military personnel. Would you explain this further?

General WARREN. The 11 countries referred to are seven countries in the Near East and South Asia region (Afghanistan, Ceylon, India, Jordan, Lebanon, Nepal, Pakistan), two in the European region ———, and two in the Africa region ———.

The dollar level and the number of students to be trained for each of these countries is dependent on changing political and military factors and availability of students from each country. To permit flexibility during implementation no specific dollar level or number of students is allocated for the above countries in the Congressional Presentation Document. Instead, the countries are placed in a regional program as shown in the Congressional Presentation Document.

Mr. SHRIVER. On page 11 it is stated that military assistance ———.

General WARREN. ———.

USE OF AID STAFF IN LAOS FOR MILITARY AID FUNCTIONS

Mr. SHRIVER. To what extent are AID mission staff members in Laos being used for military assistance functions there?

General WARREN. The only USAID staff involved in military assistance are the members of the Requirements Office (RO). This office is concerned with the procurement and distribution of military supplies and equipment and of foodstuffs for Lao military forces. The USAID Refugee Branch cooperates in the distribution of the foodstuffs. The Requirements Office is staffed by civilians—currently 30—experienced in military procurement and supply. It has no combat advisory functions.

INDONESIA TRAINING PROGRAM

Mr. SHRIVER. According to the table on page 18 of the justifications, in most instances, the existing Indonesian armed forces are ———. Since our MAP program is a relatively small proportion of their total defense expenditures, and since we have a large economic assistance program there for civic action, why should you continue to have more than some CONUS training there?

General WARREN. ——— the government has endeavored to use the armed forces in civic rehabilitation efforts as part of its priority concern in trying to develop the nation's economy, strengthen infrastructure and more widely disseminate economic benefits to the Indonesian people. These is a great need for transportation and communications equipment so that the civic action projects can reach the people in the more remote and isolated sections of the country. The U.S. Military Assistance Program, while small, is geared to give tangible support to the Indonesian Government's civic action program.

Mr. SHRIVER. The economic data for Korea on page 20 shows an increase in per capita GNP from $188 in 1968 to $812 in 1969. Is this a misprint?

General WARREN. Yes, this is a misprint. The correct figure is $212 per capita GNP in 1969.

COMMUNIST ASSISTANCE TO NORTH KOREA

Mr. SHRIVER. You mentioned Soviet support of North Korea in your statement. What is the dollar cost of that assistance for the past several years? Has there also been assistance from Red China?

General WARREN. The North Korean armed forces are well equipped with Army, Navy, and aerospace materiel provided largely by the Soviet Union. ———.

NEED FOR PHILIPPINES REQUEST

Mr. SHRIVER. The Philippines spend only 1.5 percent of their GNP for their own defense. They have discontinued their minor support of our efforts in South Vietnam. They really have very little capability in regard to the defense of the SEATO area, and seemingly little interest in it. That would leave the justification for this ——— to the retention of U.S. base rights there, but the Philippines are not listed as a base rights country. Since we are to assume a lower profile in Asia in the future, why should we not begin to phase this program out now?

General WARREN. A lower profile for the United States may mean a requirement for increased MAP for allies in order to allow them to assume greater responsibilities. ———.

COST OF JORDAN AND LEBANON TRAINING PROGRAM

Mr. SHRIVER. The training programs for Jordan and Lebanon are lumped in with five other countries. Would you estimate the cost for each in fiscal year 1971?

General WARREN. The estimated fiscal year 1971 program cost is ——— for Jordan and ——— for Lebanon.

GREEK EQUIPMENT SUSPENSION POLICY

Mr. SHRIVER. On page 30, the book states that the "selective suspension policy" toward Greece remains in effect. Would you state for the record what items have been suspended? The helicopters, armored personnel carriers, and tanks which you have programed for 1971 are weapons which could and have been used in Greece for internal security, are they not?

Genral WARREN. The items suspended are: ———. This suspension policy, instituted shortly after the April 1967 coup, was intended as a signal of U.S. concern over the failure of constitutional process to be allowed to develop in Greece. Our policy of suspension was intended to be somewhat flexible and some exceptions have been made. Those items selected for suspension were those which had a high degree of visibility such as tanks and armored personnel carriers. Notwithstanding the fact that some of the items on our suspension list do not meet the high visibility criteria, internal security or control of civilian population has not been a criterion.

NEED FOR FUNDS REQUESTED FOR GREECE

Mr. SHRIVER. Since there is no longer a meaningful threat to Greece from the Warsaw Pact countries, primarily Bulgaria, is this another instance where major justification for a military assistance program is access to military bases? What are these bases?

General WARREN. We believe that the threat has not abated. It is still there and very real, particularly from Bulgaria whose army and air force are well equipped and effective. ———. Those can be noted at page 30 of the Congressional Presentation Document on MAP for fiscal year 71. We have no bases *per se* in Greece. We do have the use of important communication, air and naval facilities.

NEED FOR TURKEY REQUEST

Mr. SHRIVER. On page 32 you say that Turkey already has the largest army and air force in the Middle East. Thus, I assume there is no external threat from other Middle East countries. Any threat would have to come from the Soviet Union. Since Turkey cannot be expected to equal the Russian military strength no matter how much assistance we give her, why must we continue our high-level program there year after year? It certainly is not gaining us any goodwill there.

General WARREN. NATO, as a collective security organization, is designed to enable the members to act in concert in defending themselves against a common threat which is too great for them to defend against alone or individually. Our Military Assistance Program to Turkey is intended to help the Turks make an important contribution to the collective defense of NATO and not to create a Turkish military force capable of standing alone against a country as powerful as the USSR.

UNDELIVERED BALANCE TO NORWAY

Mr. SHRIVER. What is included in the $5.7 million in undelivered assistance for Norway? Will all of this finally be delivered? When?

General WARREN. The $5.7 million represents the undelivered portion of a Norway-U.S. cost share shipbuilding program. All of this program has been delivered.

NEGOTIATION WITH PORTUGAL

Mr. SHRIVER. What is the status of our negotiations with Portugal concerning the use of the Azores base facilities?

General WARREN. At Portuguese initiative, we have discussed this question on an informal basis, but no decision has yet been taken on holding formal negotiations.

COST OF PORTUGUESE TROOPS OVERSEAS

Mr. SHRIVER. How much does it cost Portugal annually to keep troops in its overseas provinces?

General WARREN. We do not have precise information on that. ———.

AGREEMENT EXTENSION WITH SPAIN

Mr. SHRIVER. The 2-year extension of our agreement with Spain regarding the use of her bases expires on September 26 of this year. What is expected to happen at that time? Do you expect to be back here next year to request additional funds for Spain?

General WARREN. Discussions on this question are scheduled to open on March 17 between Secretary Rogers and the Spanish Foreign Minister, Lopez Bravo. We are hopeful that arrangements can be made to continue the U.S. use of the bases beyond the September 26 date. ———.

NEED FOR LIBYA PROGRAM

Mr. SHRIVER. On page 45 you say the proposed program of ——— for Libya "will provide for maintaining a reduced presence of our MAAG" there. Since we have already agreed under pressure, to close Wheelus Air Force Base by June 30 of this year, and since that base was the justification for our MAAG program there in the first place, why should we continue any program in that country after June 30?

General WARREN. The continued presence of our MAAG is required to administer equipment deliveries under prior year grant and sales programs. ———.

TRAINING OF LIBYAN PILOTS IN GREECE

Mr. SHRIVER. Would you comment on news reports that Libyan pilots for the new French Mirage jets are being trained in Greece, another recipient of our military assistance?

General WARREN. This training program substantially predates the sale of Mirages to Libya. Since 1961 approximately ——— basic pilot trainees have graduated and there are currently ——— enrolled. Since Greece has no Mirage aircraft in its inventory, these pilots would require extensive further training elsewhere if they are to fly the aircraft scheduled to be provided by France.

AFRICAN ORIENTATION TRAINING PROGRAM

Mr. SHRIVER. You also mention on page 45 "a few orientation training visits for military personnel from some other African countries." Is this the same as the "Distinguished African Military Leaders" program which cost about $100,000 in fiscal year 1969 and $512,000 in fiscal year 1970? How much will be obligated for this program in fiscal 1971? From which countries will these people be coming?

General WARREN. These orientation training visits, which are very few in number, include distinguished African military leaders, such as chiefs of staff, as well as other key or high potential military leaders. Costs were $92,000 in fiscal year 1969 and are presently programed at $33,000 for fiscal year 1970. The $512,000 was the total originally budgeted in fiscal year 1970 for the Africa area program of which this training is but a part. For 1971, we currently plan a program of $100,000. The specific visitors for fiscal year 1971 have not been designated but they could come from countries such as: Guinea, Ghana, Senegal, Cameroon, Dahomey, Ivory Coast, Mali, Niger, Sierra Leone, and Upper Volta.

ASSISTANCE OF OTHER COUNTRIES TO THE CONGO

Mr. SHRIVER. On page 50 you say our military assistance to the Congo "has served to encourage substantial participation by other countries," namely Belgium, Italy and Israel. I would assume that these other countries have their own reasons for aiding the Congo which are of far more importance to them than our ——— aid, do they not? Why is it up to us to encourage them? How much assistance is each of these countries giving?

General WARREN. These other countries undoubtedly have reasons of their own. Our encouragement of their continued substantial participation is an "effect" rather than the "cause" of our aid. Our program—and those of the other nations—evolved from support of the U.N. peacekeeping operations of 1960–64 and continuing support of the U.N. policy to assist in maintaining the unity and political independence of the Congo. A climate of stability within the Congo is essential for its economic and social development. ———. Through 1969, the Congolese received an estimated ——— in military assistance from the free world, excluding the U.S. About ——— Belgian Army personnel are in the Congo providing training and advisory assistance and approximately ——— Congolese were trained in Belguim last year. There are ——— Italian military personnel in the Congo providing pilot and maintenance training for the Congolese Air Force and ——— Congolese were trained in Italy in 1969. About ——— Israeli military are providing airborne training in the Congo and an estimated ——— Congolese received specialized airborne training in Israel last year. Equipment provided by these countries is normally on a sales basis.

U.S. COMMITMENT TO ETHIOPIAN ARMY

Mr. SHRIVER. You mention our "1960 commitment" to the Ethiopian Army on page 52. What is this commitment, and how long will it be in effect?

General WARREN. In October 1960 we agreed to equip an Ethiopian Army of up to ——— men.

AID TO LIBERIA

Mr. SHRIVER. The objectives given for our aid to Liberia are to maintain internal security ———. Why must we give military assistance———.

General WARREN. ———.

AID TO TUNISIA

Mr. SHRIVER. On page 56 you say we are assisting Tunisia in providing "limited self-defense" for a "modest capability ———.

General WARREN. ———.

EUROPEAN AND SOVIET DELIVERIES AND EXPECTED DELIVERIES OF ARMS TO LATIN AMERICA

Mr. SHRIVER. Would you furnish information for the record showing all European and Soviet arms deliveries to Latin American countries for the last 3 years and any which are expected in the near future?

General WARREN. European and Soviet arms deliveries over the past 3 years and future deliveries are shown in the attached table. Future deliveries (1970–74) are based on reports of sales consummated or under negotiation. With the exception of Cuba there are no Soviet deliveries to Latin America and none are expected in the near future.

(The classified information was supplied to the Committee.)

NEED FOR MILITAY AID TO BOLIVIA

Mr. SHRIVER. Bolivia has already defeated the Cuban-led insurgency movement. Why should we continue our military assistance program there?

General WARREN. ———.

MILITARY AID TO HONDURAS AND EL SALVADOR

Mr. SHRIVER. Honduras and El Salvador recently fought a short but expensive war, and yet you carry on our military assistance programs in those two countries on a business-as-usual basis. Why?

General WARREN. We are not carrying on business as usual. Prior to the July war we had conducted a relatively modest program emphasizing training, internal security and civic action in both countries. ——— when it appeared that a conflict could occur, all military assistance to both countries was suspended. All grant materiel assistance and sales of lethal items remain suspended.

Last December, in recognition of the progress that had been made toward normalization and in order to preserve and build on this favorable trend, our suspension policy on advisory, training, and sales (of nonlethal items) was eased somewhat. Any further relaxation will be contingent upon progress made by these two countries in resolving the issues remaining between them.

Mr. COHELAN. Is there a definite plan for the reduction of American base rights in the Philippines? If there is, is there any projected reduction in military assistance?

General WARREN. Some negotiations are going on, including the one relative to our base rights. Our present base rights agreement runs until 1991, I believe. As to reductions, some have been made on both military assistance and U.S. personnel on the Philippines.

Mr. COHELAN. Do we have any joint operations with the Philippine military?

General WARREN. No, sir. However, there is joint planning for the defense of the Philippines. The air defense system is integrated and there are frequent training exercises involving both United States and Philippine forces.

Mr. COHELAN. Has the military ever considered that as an advisable possibility in lieu of some of the miscellaney of the base operations we have there?

General WARREN. You mean reduction of our forces in the Philippines?

Mr. COHELAN. For example, we have active bases there now other than Clarke and Subic Bay?

General WARREN. Yes, sir.

Mr. COHELAN. I believe Subic is important and Clarke is important. Within my memory we were going to phase out Sangley at one time. Other bases have been developed down below Cibu and other places. If we are to reduce our military presence and if there is to be a closing of bases could there not be some other arrangement worked out for joint exercise of military operations with the Philippines in lieu of being there?

General WARREN. Sir, I do not believe the United States would want any joint military exercises ———.

Our activities at bases in the Philippines are strictly support and supply of our own forces, mostly in South Vietnam, and do not involve combat units. It is a base and supply operation primarily.

Mr. COHELAN. And military assistance, MAAG military assistance?

General WARREN. There is military assistance, mostly for internal security, to help them construct roads and in support of antismuggling activities. We are requesting ——— for the 1971 program.

Mr. COHELAN. This reinforces your original answer that we do not anticipate any other arrangements with the military services of the Philippines so that there undoubtedly will be base reductions. There will be rearrangements of our base uses. Is that not correct?

General WARREN. All of our bases are under study. Some, no doubt, will be closed. We do not have major ground combat units there. Although they just pulled their engineer troops out of South Vietnam, I see no possibility of our working jointly with them in the field.

Mr. COHELAN. From the Filipino press and from what we read in our own press, our relations are rather bad with the Philippines at this moment. Do we have any contingency plan? Suppose they denied us the use of bases?

General WARREN. Sir, I am not familiar with our contingency plans and purposely have avoided reading them and getting involved because they are not part of my responsibility.

POSSIBILITY OF REDUCTION IN MAP FOR THE PHILIPPINES

Mr. COHELAN. Does it not follow that if we reduce our base operations there that there will be a reduction in military assistance over a time?

General WARREN. Not necessarily, but there could be a reduction over a period of time because our ultimate goal in all of these countries is to help them get on their feet so they can take care of themselves and do without our grant aid.

In the case of the Philippines ———.

I know of nothing in the mill that would reduce the program unless the Congress does not elect to give us the funds we request.

Mr. COHELAN. Are you involved in any way with the negotiations over bases?

BASE RIGHTS AGREEMENTS

General WARREN. No, sir; I am not. Our military assistance agreements throughout the world, sir—and we have about 40 of them—do not involve any arrangements for bases. All the base rights agreements are separate from our military assistance agreements.

Mr. COHELAN. So this is a matter of negotiation with the Philippine Government?

Mr. CHAPMAN. This whole range of questions you raise is under study, looking forward to negotiations with the Philippines in the next year or so.

DESTROYER ESCORT FOR THE PHILIPPINES

Mr. COHELAN. Turning back to hardware, in the justification book MAP is supporting a ——— for the Philippines. What function does this vessel play in Filipino security?

General WARREN. The Philippines have a major antismuggling and coastal security problem. They need a much larger fleet of patrol boats than they have. The ship you asked about is one of those engaged in coastal patrol.

COUNTER-INFILTRATION DEVICES FOR KOREA

Mr. COHELAN. Turning to Korea, in the book for sales to Korea we note they are slated to get ——— worth of credit sales. I would like to get a breakout of what counter-infiltration devices there are which are on page 21.

General WARREN. Counter-infiltration devices embrace dozens of items. There are various sensors. There are things such as searchlights, modern arms. Even the ships and aircraft for surveillance are extremely important in Korea because they have a long, rough coastline. It is very easy for the North Koreans to land agents there because North Korea has patrol craft capable of 50 knots.———.

Mr. COHELAN. Are we developing anything to overcome that?

ELIMINATION OF INVESTMENT ITEMS

General WARREN. Sir, the 1971 program has been cut to a point where we ———. Practically all of their 1971 package of ——— of present Korean forces.

Mr. PASSMAN. You stated that because of the congressional reduction in the authorization bill this equipment could not be furnished. Did you have such items in your program last year had the authorization and appropriation been sufficient?

General WARREN. Yes, sir, we had about $30 million in last year's program, as I recall.

Mr. PASSMAN. For this purpose you just mentioned in response to Mr. Cohelan's question?

General WARREN. ——— equipment.

Mr. COHELAN. It is on page 41, the sales.

Mr. PASSMAN. You mentioned the speed of these North Korean boats. You said you could not provide countermeasures because of the reduction in the authorization ceiling which limits your appropriation request.

Is that correct?

General WARREN. We deleted a number of items, including helicopters, for example.

Mr. COHELAN. For Korea?

General WARREN. Yes.

Mr. COHELAN. Can you explain why this particular portion is on the sales program?

General WARREN. We are trying to get Korea to help herself. ———

KOREAN RIFLE PLANT

We will provide Korea credit on several items, particularly a rifle coproduction plant if it is finally approved. This is the first time she has agreed to a credit arrangement, and the reason she did in this case is primarily because they want this rifle plant established in Korea.

Mr. COHELAN. So we will give them a credit for ——— and she will put in ———.

General WARREN. The total package——

Mr. COHELAN. I mean ———.

General WARREN. No, sir. She will put in much more than that. The total package consists of a rifle plant which——

Mr. COHELAN. Is that what "other articles and services" means?

General WARREN. No, sir. Those are miscellaneous items.

Mr. COHELAN. They are projected sales and have to do with rifle coproduction?

General WARREN. Yes, sir. The rifle plant could cost up to ——— over 4 years.

There is a second part of the problem which involves an ammunition plant Korea will have to fund in order to produce the ammunition for whatever rifle she builds. We are earmarking certain credit funds for both plant and the entire rifle production facility. Both will be Korean-purchased with their local funds and FMS credit. Korea will supply the brick and mortar and the site and other items.

Mr. COHELAN. Will you add this up for me so I will understand it? How many dollars will we credit for the total Korean sales program and how many dollars will they put up?

General WARREN. Sir, projected credit sales amount to all of the dollars you see there. However, Korea must repay them and repay with interest at the rate of somewhere around seven and a half percent, over

10 years. We have not negotiated the details of that particular arrangement.

Mr. COHELAN. Now answer my question. What does it add up to?

General WARREN. The rifle plant?

Mr. COHELAN. The whole thing. You have ——— here, which is the sum of ——— dollars, and ——— credit, which adds to ———. Is that correct?

General WARREN. Yes, sir.

Mr. COHELAN. For modernization and counter-infiltration items.

General WARREN. That is the sum of the money we are talking about.

Mr. COHELAN. What I am trying to extract from you is the sum of the dollars that they are going to pay.

General WARREN. They are going to pay ——— with cash and ——— with credit funds we will loan them at the going rate of interest, to be repaid over a period of 10 years.

Mr. COHELAN. The total amount?

General WARREN. Yes, ——— will be the total amount of sales for fiscal year 1971.

Mr. COHELAN. Can you clarify it, Mr. Secretary?

Mr. CHAPMAN. The $9 million consists of actual sales made from 1965 through 1969, and 1970 and 1971 are just illustrative programs. The major program is a rifle production factory which they have been asking us for for some months and which the Army had had under study as a project.

Actually how that project will be financed has not yet been negotiated.

Mr. COHELAN. What does this column mean, Mr. Secretary, FMS–cash?

Mr. CHAPMAN. Actual cash that the Koreans pay for the purchase of equipment from the military departments.

Mr. COHELAN. Then it is conditional on their paying this amount in cash?

General WARREN. Yes, sir.

Mr. COHELAN. The down payment would be the cash item listed here?

General WARREN. No, sir, the down payment against sales made possible by our extending credit is part of the figure shown in the FMS credit column.

Mr. COHELAN. Then I do not understand. Why go into all this cash business?

General WARREN. May I try to explain?

Mr. COHELAN. Yes.

General WARREN. We have been working with the Koreans and with several manufacturers for a year in connection with their desire to use borrowed money. It is the first time they have asked for credit from us, and I wish they would so do more often because they are always looking for more grant aid. This rifle plant would take about 12 to 18 months to build and would start producing in about 2 years. They want ——— rifles from it. The total package will be negotiated by the Korean Government with U.S. industry. We will assist and advise, but the government will not be involved except on loaning them the money.

The whole rifle plant package will probably cost around ———. The Koreans will pay from their local currency funds for the site, buildings and that sort of thing.

The plant probably will be funded over a period of 4 years at ——— a year for the amount we loan them. Details have not been worked out with the company, but we have a rough estimate of the overall costs. Apart from the rifle plant negotiation, they have an ammunition plant which they must expand; and we will offer to loan them some moneys for long-lead-time items or machinery for that plant.

The figures for 1971 are illustrative only, sir, because we have not yet consummated any detailed agreement.

Mr. COHELAN. Where does this appear in the bill?

Mr. KNAUR. Title II of Foreign Assistance and Related Programs Appropriations Act.

TYPES OF MILITARY EXPORT SALES

Mr. ALNE. Sir, I think you are expecting something from this page that was not intended. May I say first that the top says military export sales.

We have three kinds of such sales of interest to the Congress. In the first column you see commercial and in the second FMS-cash, sales from the U.S. Government for cash. In the third column we have sales from the U.S. Government but with credit provided by the U.S. Government and by the U.S. Congress.

We do this in three categories. First, what have we done in 1965–69.

Mr. LONG. First is the businessman?

Mr. ALNE. Yes.

Mr. LONG. With U.S. money?

Mr. ALNE. No. These appear in credit.

Mr. LONG. And the others are where the money comes from, the U.S. Government, in the one case as grant and in the other as credit?

Mr. ALNE. FMS-cash simply means that the country walks up to the U.S. Government as they walk up to RCA and pay cash and we sell them.

Mr. LONG. One-third involves credit and the other two-thirds are cash?

Mr. ALNE. That is right. We do this because the law requires we report to the Congress, in addition to what we sell directly what U.S. firms sell commercially in the military export business.

Here you see estimated during 1970 in the middle of the page and estimated—illustratively because we don't know for sure—for 1971 at the top of the page. There you will find four figure entries. The main one is that we really think we will have a credit program with Korea for their rifle factory and we think that they will need ——— from us. That number ——— is the only one you will find and the rest of the submission is funds required from Congress.

Mr. COHELAN. This is merely illustrative backup data to support the $272,500,000 in the budget for military credit sales. Is that right?

Mr. ALNE. ——— is provided as part of the $272 million.

TOTAL GRANT AID AND CREDIT FOR KOREA IN FY 1971

Mr. COHELAN. For my benefit, my summary of the situation would be this: In this bill that we are considering we have ——— for fiscal 1971 for grant aid for Korea.

General WARREN. Correct

Mr. COHELAN. There is in addition to that ——— for Korea in fiscal 1971 for military credit sales.

Mr. CHAPMAN. Credit, illustratively.

Mr. COHELAN. Is that a fair statement of the situation?

General WARREN. That is correct.

REDUCTION OF U.S. PRESENCE IN KOREA

Mr. COHELAN. My question, Mr. Secretary, is a policy question. What are the current plans, ———.

SALE OF AIRCRAFT TO THAILAND

Mr. COHELAN. Turning to Thailand, we have ——— in the sales program for fiscal year 1970. On page 45 of the sales justification there is ——— OV–10A aircraft at a cost of ———. I know this is an illustrative matter, but can you tell me what is the function of this aircraft? Can you give us some background on it?

You might include in your answer whether these craft will be flown by Thai nationals.

General WARREN. Sir, that aircraft is a North American aircraft developed for the U.S. Air Force and the Marines. It is a very capable but fairly slow aircraft—not complicated. It will carry both machine-guns and limited ordnance. I believe it carries six or eight passengers. It will be used for reconnaissance and surveillance against insurgent troops. The Marines used some of these aircraft over in South Vietnam. You may have seen them. They are twin-ruddered aircraft, propeller driven, and apparently quite good airplanes. This is a sale.

Mr. COHELAN. Is it sort of a STOL aircraft?

General WARREN. Yes, sir.

Mr. COHELAN. Do you know anything about its characteristics?

General WARREN. I have had a briefing.

Mr. COHELAN. Loiter time, range, and so on?

General WARREN. May I insert the details in the record?

(The information follows:)

> With normal stores and no external fuel tanks, the aircraft has a loiter capability of 1½ hours at a radius of 80 miles, and 1 hour at 125 miles. The speed range is between 120 and 220 knots generally, depending on the combat load and configuration.

Mr. COHELAN. Will they be flown by Thai?

General WARREN. Yes, sir.

Mr. COHELAN. And the same thing you described before applies here; this is illustrative?

General WARREN. This is a cash sale. It does not involve credit.

Mr. COHELAN. And it has been consummated?

General WARREN. Yes.

Mr. COHELAN. I am happy to hear that because they have a fine economic position; don't they? I understand they have a good exchange position.

Mr. CHAPMAN. A good reserve.

Mr. COHELAN. Mr. Secretary, what is the current status of the decision to sell F–4's to Israel?

Mr. CHAPMAN. I do not know, sir.

CONTROL OF USE OF U.S. EQUIPMENT IN JORDAN

Mr. COHELAN. Mr. Secretary, what precautions are taken so that the U.S.-supplied equipment is not used by terrorists in Jordan?

Mr. CHAPMAN. We have had a very close relationship over the years with King Hussein, whom we consider one of the stabilizing elements in the Arab Middle East. We have tried to help the King to strengthen his forces which are personally loyal to him in order to strengthen his land, vis-a-vis the Fedeyeens. There has been absolutely no indication of his desire to help the Fedeyeens.

Mr. COHELAN. How do we control this?

Mr. CHAPMAN. I don't think there is any physical control.

Mr. COHELAN. Is there a MAAG organization there?

Mr. CHAPMAN. A U.S. defense attaché is attached to our Embassy.

Mr. COHELAN. Is there any reporting systems so we can find out whether they are misusing our equipment? You recall the Turkish-Cyprus situation. We chose to do something about it in that case. Is there any way we can determine that in this situation?

(Discussion held off the record.)

RESTRICTIONS ON TRANSFER AND USE OF MAP AND FMS EQUIPMENT

Mr. COHELAN. We do then, General, have a reporting system so we know whether there is any misuse of materiel?

General WARREN. Sir, we have agreement with each country to which we either sell or provide grant aid which stipulates that they will not sell it or give it to a third country without our approval. If they do so—and this could happen—they are violating their agreement with us. I am not aware of any recent such instance.

Mr. COHELAN. Is that true of NATO forces too?

General WARREN. Oh, yes, sir. Any NATO force that has U.S.-provided equipment received either through grant aid or sales has agreed to not dispose of that equipment to a third country without U.S. permission.

Mr. COHELAN. But how about employing the equipment for operations?

General WARREN. They are free to employ it anywhere they want in support of common, agreed to NATO objectives. We cannot stop them for employing it anywhere for these purposes.

Mr. ALNE. Sir, may I add that with NATO countries we have the phrase "It shall be used for NATO purposes".

INDIA-PAKISTAN WAR

Mr. COHELAN. But that has been honored, hasn't it, in both Pakistan and Turkey?

Mr. ALNE. Pakistan is not NATO.

Mr. COHELAN. But we have treaty agreements with them—SEATO agreements and other treaty agreements.

Mr. ALNE. There have been some incidents.

Mr. COHELAN. They were using 104's and tanks in the 17-days war. Everybody knows that.

Mr. KNAUR. In Cyprus?

Mr. LONG. Pakistan.

General WARREN. I know they used U.S. equipment at that time, and it could happen again.

Mr. KNAUR. We cut off any further aid for a time; and their spare parts were also cut off, so their equipment became inoperative.

Mr. LONG. If I could interject there, we did enable the war to go on quite a while, and it couldn't have otherwise happened at all if we hadn't provided that equipment.

Mr. KNAUR. That is debatable, sir. Both countries had considerable military equipment from other countries.

Mr. LONG. No. 1, when we stopped they promptly began to buy from the Russians—the Indians did—and the Pakistanis from the Chinese. Undoubtedly they were using indirectly our money. So that we have in one way or another, directly or indirectly, financed those hostilities.

Mr. KNAUR. Agreed, sir, but with regard to the provision of military assistance equipment and the agreement that the country undertook before the misuse came about, it should be borne in mind that as a result of our suspending any further military assistance, including spares, their MAP-provided equipment became inoperative.

Mr. LONG. If the gentleman will yield one more time.

Mr. COHELAN. Yes.

THIRD COUNTRY SALE OF TANKS TO PAKISTAN

Mr. LONG. Is it your feeling—if I could just pursue this one step further ———.

General WARREN. ———.

Mr. LONG. Will the Congress be notified? Or are we going to have to find it out indirectly or through the grapevine when this happens?

General WARREN. If anything does happen, the Congress very definitely will be notified, sir.

Mr. COHELAN. Off the record.

(Discussion held off the record.)

Mr. COHELAN. Thank you very much for that little discussion. I enjoyed it.

PERSONNEL CARRIERS FOR GREECE

———.

Mr. COHELAN. Have you any idea, Mr. Secretary, about what the timetable is for restoration of the constitutional government in Greece?

Mr. CHAPMAN. ———.

Mr. COHELAN. ———.

Mr. CHAPMAN. ———.

TURKISH NAVAL REQUIREMENTS

Mr. COHELAN. Turning to Turkey, General. What is the Turkish requirement for destroyers and submarines that I see supported on page 32?

General WARREN. Sir, Turkey has a requirement for ships for patrol adjacent to its shores. It now has ——— destroyers, ——— submarines and ——— mine craft. We are quite concerned over Soviet inroads in the Mediterranean and are anxious to have some allied countries in the area assume a greater portion of the patrol role.

———.

Mr. COHELAN. I have been very interested in this. I felt that that could have been improved for some time—as a substitute, may I add, for our presence.

General WARREN. Yes, sir.

BASES IN TURKEY

Mr. COHELAN. Are there any plans to reduce the size of the United States military assistance or the roughly ———. In other words, do we intend to reduce eventually the Turkish program?

General WARREN. Sir, our Military Assistance Program for Turkey

———.

It was in the case of the Spanish arrangement that we were directed to fund from the MAP account $50 million as *quid pro quo* for use of our bases in Spain. Another $35 million in Export-Import Bank loans was also promised.

When this is paid off, ———.

With regard to Turkey, our relationships are tied in with NATO.

Mr. COHELAN. By the NATO Treaty arrangement?

General WARREN. Yes, sir.

IMPROVED MAAG-TURKISH PROGRAM PLANNING

Mr. COHELAN. General, is it true that the Turks are putting this money to better use through better selection of materiel and this sort of thing on the basis of our MAAG in Turkey and negotiations over these items?

General WARREN. Sir, I think our MAAG in Turkey and the Turkish officials have done an extremely good job of programing. The reason I say so is that they have been able to provide for more so-called investment or major items than most of the other countries. For example, in the 1971 program we are discussing, we estimate that almost ——— dollars allocated to Turkey will go into investment items—new equipment, modern equipment. By comparison, almost ——— proposed for Korea is going into investment items. In my opinion, this is a tribute to the way the MAAG in Turkey and the Turks themselves have worked out the program.

Mr. COHELAN. Do you anticipate a reduction in Turkish strength in years to come?

General WARREN. Sir, I know——

Mr. LONG. In the immediate future.

General WARREN. No, sir.

Mr. COHELAN. I heard some opinions to the contrary, that they were going to phase down gradually. But that is beside the point.

TURKISH PROGRAM LEVELS AND SHORTFALL

How about this ——— dollars? Is that kind of a level figure?

General WARREN. Sir, we wanted a higher figure for the last few years. It is level for fiscal years 1970 and 1971 but we would like thereafter to raise it because so much of the ——— by our standards.

Just to give you an example, I have a breakout here of what we call shortfall. This is the equipment that the area commander and our military mission in Turkey feels the Turks should but do not have in their forces. The figure is ———.

SIZE OF TURKISH ARMY

Mr. COHELAN. But that is at a structure of what— ——— That is a pretty big army for 296,000 square miles and a population of 32 million.

General WARREN. Yes, sir. It is the largest army in that whole area.

Mr. COHELAN. And they are excellent soldiers?

General WARREN. They are.

Mr. CHAPMAN. May I add a comment, Bob?

General WARREN. Certainly.

Mr. CHAPMAN. The Turks have traditonally used their army also as a mechanism to help educate and socialize their people, and they have consciously kept the level of their forces at a fairly high level in order to achieve that objective. But there are indications, as you indicate, sir, that some elements in the Government are becoming more cost conscious and they are beginning to look at the tradeoffs in the allocation of their resources. Because of the increasing number of men attaining conscription age, Turkey is considering reducing the term of military service from 24 months to 18 or 20 months. This would forestall an undesired growth of the number of men in service, but would not result in any significant reduction below the current levels.

Mr. COHELAN. Off the record.

(Discussion held off the record.)

Mr. PASSMAN. Thank you very much, Mr. Cohelan.

Mr. Conte?

U.S. OVERSEAS COMMITMENTS

Mr. CONTE. General, as of last September, the United States was committed by eight security treaties to defend 42 nations, I believe.

General WARREN. It is 43, sir.

Mr. CONTE. The United States also maintained 402 major and 1,927 minor military installations abroad and over a million fighting men.

General WARREN. Yes, sir.

Mr. CONTE. My question is, if this committee should not give you the full amount of money that you are asking for here—which is $350 million—would it not be possible to trim down some of these commitments, and could you for the record update the figures on U.S. commitments abroad?

General WARREN. Yes, sir.

(The information follows:)

The United States has active treaty commitments to 42 nations. This figure has not changed in the last year. President Nixon in his foreign policy message to Congress on February 18, 1970, as in numerous other statements over the last year, made clear that the United States will keep its treaty commitments. In so doing, however, we will in the years ahead look for a greater participation on the part of our allies, particularly in supplying mapower for their own defense. Important to the success of this new emphasis in our policy will be adequate levels of military assistance.

IMPACT OF POSSIBLE MAP CUT ON OVERSEAS BASES

Mr. CONTE. What effect, if any, would cutting down the $350 million have on all of this?

General WARREN. Sir, I don't think it would have any effect to speak of because those eight treaties—four multilateral and four bilateral—are entirely separate from our military assistance agreements; and only about a third of the countries involved in those eight treaties are receiving grant aid. The closing of the bases you mentioned would affect American forces primarily because, in most places, our grant aid programs are not involved.

Mr. CONTE. None of them affect the MAP program?

General WARREN. ———.

Libya is the only country where base rights were deeply involved.

CREDIT TERMS ON $2 BILLION FMS TOTAL

Mr. CONTE. You gave us some figures the other day on our FMS credit sales to Formosa. The going interest rate would have been 7 percent. On page 3, there is an unclassified chart which shows what we have sold from 1965 through an estimated figure for 1971. I have added up worldwide totals on FMS credit sales and it comes to $2 billion for a 7-year period. Could you give us anything for the record on what kinds of credit terms we have given on this $2 billion, or would that be too difficult?

General WARREN. No, sir. We can provide that for the record.

(The information follows:)

CREDIT TERMS FOR FOREIGN MILITARY SALES

For 1965 through 1969, credit arrangements varied as to interest rates and periods of repayment. Interest rates ranged from 3 percent to 6½ percent, and periods of repayment ran from 3 to 10 years. For 1970 and 1971, the policy is to charge interest at not less than the cost of money to the U.S. Government. Repayment periods will be from 3 to 10 years.

CREDIT SALE REPAYMENTS

Mr. CONTE. How much money has been repaid and are you satisfied with the pace of the repayments?

General WARREN. Yes, sir. We have never had a default. I will provide some details for the record, sir. Credit sales, incidentally, are just a fraction of the $1.7 billion per year of all types of sales from 1965 through 1969 worldwide, in which they are, of course, included.

Mr. CONTE. You can get that for the record.

General WARREN. All right.

(The information follows:)

Of the total credits advanced to date for Foreign Military Sales, approximately $757 million has been repaid as of December 31, 1969. We are satisfied with the pace of the repayments since each credit agreement has a repayment schedule and we have never experienced a default on payment by any country to date.

SALES TO ISRAEL AND THE ARAB STATES

Mr. CONTE. You mentioned the need for an "especially detailed" review for armed sales to Israel and the Arab States. How important a consideration will the French sale of a hundred jets to Libya be in determining the number of jets we sell to Israel?

Also, what portion of any of the new jet sales to Israel will be straight cash? What kind of credit terms will apply to the other portion? Will you not need legislation for credit sales?

General WARREN. Yes, sir. All sales to Israel are either cash or credit. Of course there is no mandate, sir.

Mr. CONTE. Off the record.

(Discussion held off the record.)

General WARREN. From 1965 through 1969, just to illustrate, the breakout of total sales to Israel is ——— commercial—that means sales by U.S. industry direct to Israel; ——— FMS credit sales. For fiscal year 1971, we are earmarking—and this is just illustrative ——— credit for Israel; but this is not firmed up.

Mr. CONTE. It could be a lot more, though?

General WARREN. It could be; yes, sir.

Mr. CONTE. And everything is dependent upon the authorization bill for credit sales going through?

General WARREN. That is correct, sir. And we estimate that Israel will also spend ——— in cash to purchase military equipment in the United States during fiscal 1971.

PACIFICATION PROGRAM IN VIETNAM

Mr. CONTE. Last year you listed eight objectives of the pacification program in Vietnam.

You said that year end goals had been established for each of these objectives. The objectives include security for the people, elimination of Vietcong infrastructure, and establishment of loyal government. What were your yearend goals on each of these objectives, and how did you do on each of them?

General WARREN. Sir, may I provide up-to-date data for the record on the totals?

Mr. CONTE. Yes.

(Classified data furnished the committee.)

UNITED STATES MILITARY ARMS POLICY TOWARD INDIA AND PAKISTAN

Mr. CONTE. Last year I asked you what our future policy was going to be for India and Pakistan. You replied "I am not in a position to answer your question at this time. Our arms supply policy for India and Pakistan is currently undergoing review under NSC auspices."

Have you completed that review? And if you have, what is our policy now?

General WARREN. Sir, it has not been completed. Our policy today is the same as it was last year. There is no grant aid for India or Pakistan except a small amount of training in the continental United States only for a few of their people. We do not sell any arms of a lethal nature to India or Pakistan, and all sales of nonlethal items are screened on a case-by-case basis.

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

GRC FORCE STRUCTURE

Mr. CONTE. General, you mentioned studies on China's Armed Forces that were started in 1969. What are some of the problems these studies will look into?

General WARREN. Sir, are you referring to the Republic of China forces?

Mr. CONTE. Right.

General WARREN. We have discussed with the Chinese the cost of maintaining their ground forces. They have orally stated that, in their own interest, some reduction in these forces would be desirable, providing a degree of modernization could be achieved. ———.

AMOUNTS OF INVESTMENT IN FORWARD DEFENSE PROGRAMS

Mr. CONTE. Why is the relationship between operating costs and investment more favorable in Greece and Turkey than in East Asia?

General WARREN. The forces in East Asia, sir, are larger than those of Greece and Turkey. Their operating costs are higher for a number of reasons. However, Greece's economy is doing quite well; and she is capable of purchasing quite a bit of material. The fact that the Greek program has been very well managed is another reason why the investment figure is fairly high ———. It is out of a total package of ——— for fiscal year 1971.

Turkey has done extremely well because half of the proposed 1971 program is investment items. I don't have the figure, but I will put in the record the overall amount of investment in recent years.

Mr. CONTE. That is all right.

(The information follows:)

TURKEY—MILITARY ASSISTANCE PROGRAM

[In millions of dollars]

	Fiscal year—		
	1969	1970	1971
Investment	55.4	52.8	———
Operating	25.0	25.5	———
Supply operations	15.6	17.9	———
Training	3.3	3.8	———
Total	99.3	100.0	———

EFFECTIVENESS OF GREEK FORCES

Mr. CONTE. You state the United States continues to have a vital interest in the security of Greece, the effectiveness of its armed forces

and joint participation in NATO. Saville Davis of the Christian Science Monitor reported on August 29, 1969, that the Greek Army no longer exists as a stable organized force because of waves of arrests of high military figures. Is this so?

General WARREN. Our military people who are working with Greece don't think so. I talked to General Burchinal the day before yesterday. He is the EUCOM Deputy Commander, and he volunteered the fact that he thought Greece, in spite of the low program level, was doing very well. And some of our people who have been out in the field with the Greek troops have come back stating that they are in the best shape they have seen them for many, many years, except that they have equipment deficiencies.

One of my officers, who was with the Greek Army as adviser 8 years ago, was over there recently; and he told me when he came back that he was astounded by the fact that the Greek ground forces today are so much better than they were 8 years ago, even though they have equipment problems.

TURKISH ECONOMIC PROBLEMS

Mr. CONTE. You state that Turkey's continuing economic difficulties prevent "any significant shift from grant aid to sales". What economic problems are they facing that prevent this shift?

General WARREN. Sir, may I ask Mr. Chapman of the State Department to comment on that?

Mr. CONTE. We have a few economic problems here, too.

Mr. CHAPMAN. I know. Principally it is a severe foreign exchange crunch. Because they are developing their industry, they are importing at higher levels than they are exporting and over the next few years they are going to be in difficulty.

Mr. CONTE. That doesn't look too bright for us then.

SALES TO DEVELOPED COUNTRIES AND OFFSET AGREEMENTS

You mentioned U.S. reluctance to provide offsetting orders from the United States as quid pro quo for European purchases of our military hardware. What do you mean by that?

General WARREN. Sir, in the past, there was a big drive by the Defense Department to contribute as much possible to a favorable gold flow. Our people were instructed to work with foreign countries to develop any large arms sales, exchanges or other arrangements that would have that result. One of the results of this policy was a lot of criticism of some of our officials—and I ran into it many times before I even was in this job—to the effect that the United States was over aggressive in urging countries to buy arms.

Also, U.S. industry objected, claiming that Defense Department representatives were favoring particular industries by recommending certain items to a country. It caused a lot of unpleasantness.

The present policy is that we will assist and advise any country that would like to make an offset agreement, but we will not go out and help them obtain one.

An example is our recent dealings with Germany. There was an offset arrangement, which did not involve any MAP grant aid, whereby Germany agreed to buy many millions of dollars worth of U.S. equip-

ments if U.S. companies or the U.S. Government could place a certain amount of work with German industry. Chris, do you know the figure?

Mr. CHAPMAN. I don't know the figure.

General WARREN. It is now somewhere around $300 to $500 million annually, sir. We are no longer pushing such arrangements. The picture has also changed because some countries which have the funds to purchase expensive arms are now capable of manufacturing them.

Mr. CONTE. I still don't quite follow you. If we can get a ——— dollars from a favorable balance with Germany, why shouldn't we do it?

General WARREN. Sir, we should. My instructions are that if a country comes in and says "We would like to buy certain items from you if you will show us where you can buy something from our country."

Mr. CONTE. I see.

General WARREN. Six representatives of foreign countries have been in asking me about such possibilities.

Mr. CONTE. In other words, there is no help to our balance of payments. It zeros out?

General WARREN. Sir, since all of the equipments we are selling are, of course, built in the United States, the dollars remain here. There is thus no gold flow involved.

Mr. CONTE. It zeros out.

Mr. CHAPMAN. May I add something to that, sir? We have an offset agreement with Germany. I am sorry I don't have the precise figures. We will provide it for the record. We are continuing discussions with the Germans, trying to have them offset the cost that we incur in keeping troops in Germany. So that is still an ongoing program. And they still have considerable funds here with our Treasury.

General WARREN. Sir, I have the details here. May I put them in the record?

Mr. CONTE. By all means.

(The information follows:)

BALANCE OF PAYMENTS AGREEMENT WITH THE FEDERAL REPUBLIC OF GERMANY

In July 1969 the United States and Federal Republic of Germany concluded a balance-of-payments agreement for the 2-year period fiscal year 1970–71. The agreement involved transfers of foreign exchange to the United States of $1.52 billion in the following ways over the 2-year period:

	Millions of dollars
Payments for military procurement in the United States	800
Federal Republic of Germany loan to the United States (repayable after 10 years)	250
Federal Republic of Germany purchase of U.S. Eximbank and AID claims on third countries	119
Federal Republic of Germany official civil procurement in the United States	125
Payment to fund in United States for encouraging German investment	150
Advance transfers for debt repayment by the Federal Republic of Germany to the United States	44
Allocation of United States Treasury interest payments to future Federal Republic of Germany military procurement	32
	1,520

Since the conclusion of this agreement the two Governments have further agreed that in light of the revaluation of the German mark, German transfers to offset our balance-of-payments costs under this agreement will be increased by about $100 million.

Mr. CHAPMAN. May I add one more point, sir, that the policy from 1962 to 1969 to push sales in developed countries—particularly Europe—was never applied to the underdeveloped world. We have never sought to push arms sales in the underdeveloped world, contrary to what has been alleged in the press.

TRAINING PRORAM FOR NIGERIA

Mr. CONTE. How will a limited training program for Nigeria contribute to Nigerian rehabilitation?

General WARREN. Sir, I would like to ask Mr. Chapman to answer that.

Mr. CHAPMAN. The civil war ended in January, and we were very recently approached by the Nigerian Government to ask us if we could help train some of their military elements, primarily in civic action and engineering skills.

The situation there is that they have a large armed force now. They have an economy that can't absorb too many people who might be demobilized from the army. And we would like to be able to be responsive to the Nigerian Government, which is fundamentally pro-West, and help them use their armed forces to rebuild their country, just like the U.S. Corps of Engineers does undertake civilian projects.

Mr. PASSMAN. Will the gentleman yield?

Mr. CONTE. Yes, indeed.

Mr. PASSMAN. You may recall we went into this matter yesterday.

Mr. CHAPMAN. Yes.

Mr. PASSMAN. Talk about the generals in the State Department. The war only concluded January 15, less than 2 months ago, and now you are telling us your propose to provide that country military assistance. The general had to yield to the State Department to get the answer. As far as I am concerned, that program should be written out of the bill. This is not directed at you, General Warren. It is directed at the State Department. The war between Biafra and Nigeria was concluded less than 60 days ago and here we are proposing a ——— program in fiscal year 1971. I believe you agreed earlier to put it in the record just what the ——— covers. It may be right, but it confuses me to know how quickly we step into these situations. Less than 2 months after the war was concluded, we are starting a military assistance program.

Mr. CHAPMAN. Sir, I would like to comment that this program is for fiscal 1971.

Mr. PASSMAN. It doesn't make a bit of difference. You start your negotiations and you are before this committee asking for money less than 2 months after the war concluded. You had to discuss this program with the Nigerians or you wouldn't be in here asking for money. You may have started this a week after the war was concluded. I don't know. It is so brand new you couldn't get it printed in your justifications.

Mr. CHAPMAN. Yes, sir. But we have to be prepared on a contingency basis over the next 18 months to be responsive.

Mr. PASSMAN. You ought to be prepared to stay out of these conflicts. That is exactly what we are getting into. It is rather frightening to think that you may have started negotiations a week after the

war was concluded. The war was concluded less than 60 days ago and you didn't have time to get the program into your justifications. The general couldn't justify it but the State Department is attempting to justify military assisance for this country. Of course it is an illustrative program. It looks as if we are bent on getting ourselves involved if any opportunity presents itself. If it doesn't, we go out and look for trouble. To me it doesn't make sense. You may have started these negotiations a week after the war ended. If the gentleman will yield further?

Mr. CONTE. By all means.

Mr. PASSMAN. When did you start these negotiations?

Mr. CHAPMAN. I don't think there have been any negotiations.

Mr. PASSMAN. There had to be negotiations, or you ought to withdraw your request for ——— for fiscal 1971.

Mr. CHAPMAN. Sir, they just sounded us out to ascertain whether we would be willing.

Mr. PASSMAN. And based on the fact that they sounded you out, you are in here asking for ———.

Mr. CHAPMAN. On a contingency basis. We had a MAP training program for Nigeria prior to the civil war and had a small contingency program during fiscal year 1968, 1969 and 1970 which we did not utilize. We would like to be able to utilize a small program in fiscal year 1971.

Mr. PASSMAN. I believe you promised to provide the worksheets on this item, didn't you?

Mr. CHAPMAN. Yes, sir.

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

MAP AND SALES TO LIBYA

Mr. CONTE. General, what effect will our departure from Wheelus Air Force Base in Libya have upon the MAP budget for Africa?

General WARREN. Sir, MAP grant aid to Libya is phased out except for a very small amount for training and to cover the costs of what is left of our mission in Libya while it continues to administer certain undelivered balances that are very small. We propose ——— for grant aid training for Libya.

Mr. CONTE. You anticipate continuing FMS and commercial sales to Libya because, as you say, of "broad residual interests" in that country?

General WARREN. Sir, the sales matter is now under review in the executive branch. At present, there are some deliveries we have not completed. Libya bought some C–130 aircraft commercially, and the present policy would be to continue with the normal delivery schedule unless this study results in a decision to the contrary.

AID ACCOMPLISHMENTS IN LATIN AMERICA

Mr. CONTE. You seek "to encourage Latin American countries to develop only those military forces that are necessary for valid security needs and to avoid expenditures which might interfere with socio-economic progress." Do you feel we have been successful in this effort, General?

General WARREN. Sir, I think our military assistance, and certainly our economic assistance, has helped in Latin America; but those countries are a long way from the economic development we would like eventually to see them attain.

Mr. CONTE. I know of one, Peru, that would be an ideal laboratory case.

"UTILITY VALUE" OF EXCESS EQUIPMENT

Is the decision to use "utility value" on excess military equipment simply an accounting procedure, or will it affect the quantity given out to each country?

General WARREN. Sir, it is an accounting procedure that we originated in my office, so we could show people a little more clearly the true value of the equipments we deliver from excess or long supply service stocks.

The acquisition cost is somewhat misleading, because a lot of this equipment may be worth only 10 percent of its original cost. We ran several cross section surveys on surplus and other material and concluded that a fair estimate across the board—of course, it will vary item by item, and it is a prohibitive task to survey them all—would be that the major items of equipment probably average out to be worth about 25 percent of their original acquisition cost. Secondary equipments for the most part come out of warehouses brand new—spare parts and this sort of thing—so we estimate their value at 100 percent of cost.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

ROCKEFELLER RECOMMENDATIONS

Mr. CONTE. General, Governor Rockefeller disagrees with my amendment in regard to the sale of sophisticated weapons to developing countries.

He also comes out with something that seems slightly contradictory. He calls for a reversal in the downward trend of military grants to Latin America. Did you read that?

General WARREN. Yes, sir.

Mr. CONTE. Do you agree with him?

General WARREN. I don't agree personally with some of his proposals. I believe that, overall, he suggested an increase in military assistance; but he also proposed to do away with all the military groups that are running the program, and that seems to me a little hard to understand.

FULBRIGHT AMENDMENT ON LIMITATION OF TRAINING

Mr. CONTE. Do you disagree with Senator Fulbright's amendment whereby the number of foreign military personnel trained here is limited to the number of civilians who study here under the Fulbright program?

General WARREN. Sir, the Secretary of Defense feels that this amendment is very definitely detrimental to our military assistance program because one of the most successful parts of it has been our

continental U.S. training program. This amendment has compelled us to reduce the number of MAP trainees brought to this country in fiscal 1970 by 714; and we shall have to reduce the number originally scheduled shall for fical 1971 by 1,778. This involves some rather major cuts in trainees from countries like China, Korea and the Philippines. For example, we are cutting by ——— the number of Korean military personnel that would have been brought to this country for professional training.

For China, ——— are cut out.

Mr. CONTE. Let me say, General, I agree with you. I agree with you because I have had first-hand experience in this. I don't think that the overthrow and the coup in Indonesia would have ever come about unless it had been for the military people that had been trained in this country. I think that this was a hard core cadre people that threw the Communists over in that particular country. That is one program that I have always endorsed. I think it is a good one. I endorse the Fulbright education program, too. I think that is a good program.

Mr. KNAUR. Perhaps we should get more money so more Fulbright students may be brought to this country.

Mr. CONTE. My suggestion is rename the program.

I am going to ask you some questions now on some GAO reports.

GAO REPORT ON AID TO THAILAND

On December 9, GAO reported on U.S. assistance to Thailand. Its general conclusion was that substantial amounts of our assistance have not been used effectively and thus have not contributed significantly towards the counterinsurgency effort. Programs administered by both AID and DOD were considered.

What have you done to remedy the situation with respect to those programs within your judisdiction and budget? Are you familiar with that report?

General WARREN. Yes, sir; I am.

Mr. CONTE. December 9, 1969.

General WARREN. Our military assistance group in Thailand of course has this report. I do not know specifically about many of the actions they have taken, but I should like to put our reply to the General Accounting Office in the record.

Mr. CONTE. Go ahead, because I have a lot of GAO reports here.

(The information follows:)

The General Accounting Office raised five major points regarding military assistance in Thailand in their December 9, 1969 report. My office commented on these points in a letter to the GAO. In brief, my office noted:

———

(*b*) That while the primary objective of our assistance is related to counter-insurgency, another objective is to provide the Thai Armed Forces with the capability of participating in defense against external conventional aggression. Hence, some items supplied were not directly related to counterinsurgency.

(*c*) That although deficiencies continue to exist, the Thais have demonstrated increased capability in utilizing equipment effectively.

(*d*) That there has been definite improvement in the deployment of Thai Armed Forces to meet the insurgency threat and most importantly the Thai have demonstrated a readiness to deploy quickly Thai armed units on an "as required" basis.

———

GAO REPORT ON ETHIOPIA

Mr. CONTE. December 19, 1969, GAO issued a report on U.S. assistance to Ethiopia. Among other things, it concluded that Ethiopia continues to have problems in adequately maintaining and utilizing MAP-furnished equipment. MAAG even noted for GAO a proneness to cannibalize the equipment.

What steps have you taken to correct this?

General WARREN. The MAAG has been working with the Ethiopian military to correct some of these deficiencies. One of the things accomplished as a result of the criticism is the establishment of several Ethiopian military units in different parts of the country. Their maintenance rate has always been poor, but it has improved since that report came in. I again would like to put our reply in the record.

Mr. CONTE. Okay, General.

(The information follows:)

The MAAG has taken the following steps: (1) provided advice and assistance for the establishment of an engine rebuild system, (2) assisted in establishment of a program for improved utilization of school trained personnel, and (3) helped create a more efficient and responsive system for equipment repair. Additionally, a Central Procurement Agency is being developed to assist the Ministry of Defense in applying effective management techniques.

GAO REPORT ON TAXATION OF U.S. DEFENSE ACTIVITIES OVERSEAS

GAO reported on January 20, 1970, on the questionable payment of taxes to other governments on U.S. defense activities overseas. Included were some $600,000 to the Philippines and $300,000 for China. Has anything been done since the report to set up clearer guidelines on U.S. tax exemption policy?

General WARREN. On February 24, 1970, the State Department, on its own behalf and on behalf of the Department of Defense, released the joint State/Defense reply to the GAO report to which you have referred. The joint reply, dated February 16, runs some 116 pages but I would like to submit for the record a summary prepared by the Secretary of Defense.

Mr. CONTE. I am certainly going to look forward to getting that. I hope that before this record is complete we might have something on that, General. I think it is unconscionable for any country that we are helping out, at the expense of the United States taxpayers, to turn around and tax us. It is just unbelievable.

General WARREN. I agree.

(The information follows:)

DEPARTMENT OF DEFENSE SUMMARY OF COMMENTS ON THE GAO REPORT ON "QUESTIONABLE PAYMENT OF TAXES TO OTHER GOVERNMENTS ON U.S. DEFENSE ACTIVITIES OVERSEAS"

A recent report of the U.S. General Accounting Office (GAO) entitled "Questionable Payment of Taxes to Other Governments on U.S. Defense Activities Overseas, January 20, 1970," reviews the current operation and implementation of the U.S. foreign tax relief program for U.S. expenditures in the interest of the common defense. That report alleges that the U.S. Government is paying substantial sums of money indirectly in taxes to our allies in connection with expenditures for the common defense which the U.S. is making overseas. The report estimates, for example, the following amounts were incurred over a period of years in certain countries: Vietnam, $28 million; Thailand, $4 million; Philip-

pines, $600,000; Republic of China, $300,000; West Germany, $2.2 million; and the United Kingdom, $890,000. The report calls this "inappropriate."

The comprehensive comments of the Department of State and the Department of Defense are contained in a 116-page document which traces the origin and purposes of the U.S. foreign tax relief program for U.S. expenditures in the interest of the common defense, and also addresses particularly the recommendations made in the GAO report, providing a detailed analysis of each of the specific tax problems cited.

The U.S. foreign tax relief program originated in 1951 to secure relief from foreign taxation on U.S. expenditures in the interest of the common defense. It has resulted in specific tax relief agreements (or comparable provisions in broader, status-of-forces agreements) with all our European NATO allies and most of our allies in the Far East, some 19 countries in all. These agreements are designed to implement the fundamental principle of the U.S. foreign tax relief program which is (as reaffirmed by the Department of State and the Department of Defense as recently as September 12, 1969) "that United States expenditures made for the common defense abroad should not be subject to foreign taxation."

In general the U.S. foreign tax relief program on U.S. expenditures for the common defense has succeeded in meeting its objectives. Complete exmption from all customs duties directly imposed has been obtained by agreement. Internal taxes which have an identifiably significant impact on U.S. common defense expenditures have been specifically exempted; provision has been made for agreement for relief from new taxes when they are determined to have a similarly significant impact. U.S. military forces do not pay taxes or duties levied directly upon them, nor do they bear indirectly the burden of any taxes expressly listed in the various agreements.

While reliable statistical indications of the degree of success of the U.S. foreign tax relief program cannot easily be derived from data presently on hand, a balanced evaluation of the program must come to two overall conclusions:

(1) Foreign taxes and duties, in aggregate, represent a minor fraction of total U.S. defense procurement abroad; and

(2) Very little of the total foreign tax "bill" is actually indirectly borne by the U.S. Government, which has secured virtually complete relief over the past two decades.

As regards the allegations contained in the GAO report pertaining to particular countries, the Department of State/Department of Defense comments point out that several of the "problems" either were resolved long ago or were being actively pressed at the diplomatic level prior to the time the GAO fieldwork was conducted. In other cases, relief was obtained shortly before the GAO filed its report.

While the Department of State and the Department of Defense concur with the general GAO finding that the U.S. Government does not have "an adequate tax agreement" with either the Republic of Vietnam or the Kingdom of Thailand, tax relief for U.S. common defense expenditures has nevertheless been improvised on the basis of existing agreements of more limited scope. Enough information is presently on hand to conclude that the U.S. has obtained and continues to obtain substantial tax relief in Vietnam and Thailand in a considerable variety of situations.

With respect to the specific GAO finding that at least $28 million in taxes were paid, indirectly, as part of the cost of various real estate rentals in the Republic of Vietnam in the period July 1966 through June 1968, the following observations are pertinent. To begin with, real estate which is publicly owned by the Government of South Vietnam is provided rent free if needed by the U.S. Armed Forces in that country. Second, the Government of the United States did not write a check payable to the South Vietnamese Government for Vietnamese taxes, nor does the U.S. Government pay taxes directly to the South Vietnamese Government in any other manner. Third, that government does not levy taxes on our Government. The taxes are levied on persons who happen to own real estate in that country, not on the U.S. Government. Some of the taxes are based on the value of the property involved, but others are simply income taxes based upon the net income of the persons involved and are not related to whether they own real estate or not.

There is no factual evidence in the records of the U.S. Government, which the GAO audited, to support a finding that the rentals paid by the various U.S. Government military and nonmilitary agencies to private landlords in the sum of $55 million would have been $28 million less but for Vietnamese taxes assessed against the landlords. The finding is simply an hypothesis by the GAO that

the taxes assessed against landlords in South Vietnam (whether or not in fact paid by them) are passed on indirectly in the form of increased rents to the U.S. Government agencies leasing their private properties.

It may be that some portion of South Vietnamese taxes is passed on indirectly as a burden on U.S. expenditures for the defense of South Vietnam. The Department of State and the Department of Defense are undertaking necessary preparatory studies of the Thai and Vietnamese tax structures as they presently affect U.S. common defense expenditures and will consider initiating negotiations with the two Governments involved if these studies demonstrate a need for new tax relief agreements.

GAO REPORTS ON GREEK AND TURKISH JET ENGINE OVERHAUL

Mr. CONTE. GAO reported on June 2, 1969, on participation by Greece and Turkey in a MAP overhaul program for jet engines. The report concluded that this program cost more than required because of poor notification of available excess property and recommended improvements in such notifications. Have you effected this improvement?

General WARREN. Sir, was that in the Turkish program?

Mr. CONTE. Greece and Turkey overhaul program for jet engines.

General WARREN. May I put the reply in the record, sir?

Mr. CONTE. That was a June 2, 1969 GAO report.

General WARREN. Yes. I have the detailed answers, but would like to put them in the record, if I may.

Mr. CONTE. Yes.

(The information follows:)

SCREENING OF EXCESS MAP PROPERTY

This improvement has been effected. Excess MAP property listings are now prepared on a consolidated basis so that assets previously circulated but still available can be reconsidered in light of current needs. These listings are now published biweekly and each item is assigned a 45-day automatic release date (ARD). Items which are not distributed continue to appear on successive biweekly listings until the ARD is reached. Following expiration of the 45-day screening period, the remaining undistributed items are held for an additional 15 days to allow for processing of late requisitions.

IMPACT OF INSURGENCY THREATS ON U.S. OVERSEAS INTERESTS

Mr. CONTE. You state that insurgencies, both endemic and externally supported, persist in Burma, Malaysia, Thailand, Indonesia, and the Philippines. Do any of these so-called insurgencies, in your opinion, pose a significant threat to the national security of the United States?

General WARREN. They pose a threat to our interests in Thailand. ———. There are about five different factions in Burma that are creating insurgencies. The situation is very unstable, and the five different groups don't agree with each other, but I do not believe it poses a threat to the Burmese Government at this time.

The Huk movement does not pose a serious threat to our U.S. activities in the Philippines. Current Huk activities are different than they used to be, and there are three or four different Huk organizations which have different objectives. It is an odd situation, but they do not pose a significant threat to our bases. I believe the Philippines estimate that the number of hard-core Huks may number just a few hundred. However, they have a tremendous part-time following; and one

Huk may have eight people in a village whose help he can get if he wants it. They have caused some trouble, but it is not serious.

Sir, I missed one country.

Mr. CONTE. Malaysia, Burma, Thailand, Indonesia. I am surprised at Indonesia. I thought they were pretty quiet right now.

General WARREN. Their situation in Indonesia has improved, of course, since the Communist-oriented regime was thrown out; and I believe they are in better shape today than they were even a year ago.

Mr. CONTE. Thank you.

Mr. KNAUR. There are dissident bands in certain parts of the country.

Mr. CONTE. They are still around in the little islands?

Mr. KNAUR. In Borneo, in particular.

Mr. CONTE. You can give more for the record on the other countries.

(Classified information was furnished to the committee.)

In the wake of Philippine withdrawal of its 1,500-man force from Vietnam, are there any plans to foot the bill for new Philippine support in Vietnam?

General WARREN. No, sir.

TRAINING FOR NEPAL

Mr. CONTE. Why are we training personnel for Nepal?

General WARREN. Sir, we propose to provide orientation training only in the United States for a small number of personnel from Nepal. We trained six in fiscal year 1969 and are training four in fiscal year 1970. A very small number, not yet determined, are scheduled for orientation in the United States only during fiscal year 1971.

SPANISH BASE RIGHTS

Mr. CONTE. How will the expiration of the 2-year extension with Spain affect your budget?

General WARREN. It will not affect it, sir, unless there is a follow-on agreement. We have included $25 million in the 1971 program to complete our $50 million total grant aid commitment to the Spanish in connection with the 2-year extension. There will be some future negotiation, but no determination has been made at this time ———.

Mr. CONTE. ———.

General WARREN. Yes.

Mr. CONTE. Can you explain that to me?

General WARREN. ———.

MAP SUPPORT OF CIVIC ACTION IN AFRICA

Mr. CONTE. How does MAP encourage expansion of civic action efforts in Africa?

General WARREN. Small MAP-supported programs of civic action in Africa have contributed to local projects such as roadbuilding and maintenance, improvements on housing, medical facilities, and other activities of benefit to the civilian sector.

MAP FOR THE CONGO

Mr. CONTE. You say that MAP is designed to complement the efforts of Israel, Italy, and Belgium in the Congo. Is that to cut the cost of the program there?

General WARREN. The program for the Congo has gone down from $2.5 million in 1969 ——— million this year. We actively encourage those other countries to assist in and augment our activities. The 1971 program is limited to trucks and radios, spare parts, and attrition and replacements for items in the Congo plus the training program.

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

THREAT OF INSURGENCY IN ETHIOPIA

Mr. CONTE. Under regional threats, you state there is always a possibility that insurgencies could develop or get more serious. How real is this possibility? I believe you are talking about Ethiopia.

General WARREN. Yes, sir. Ethiopia is not confronted with any external threat of significance, but she does have differences of opinion with one of her neighboring countries over a piece of territory.

There are some four different factions in Ethiopia that are rebellious or dissident and are causing trouble within the country. They are located in different parts of the country, and this poses problems related to forests, communications, and transportation. ———. I don't think there is any major problem.

Mr. CONTE. General, with all the ———. You can go off the record if you want to.

General WARREN. I would be glad to stay on the record if you wish.

Mr. CONTE. All right.

General WARREN. ———.

Mr. CONTE. It is sure costing us plenty—ships with gold wallpaper, and everything else.

HONDURAS AND EL SALVADOR

Would it be fair to conclude that a similar level of funding for Honduras and El Salvador reflects an effort to maintain a balance between these two warring nations?

General WARREN. Sir, I would like to provide an answer to that for the record. I don't have it with me.

(The information follows:)

Given the internal security problem in each country, we have generally supported forces of about ——— in both countries.

REPAYMENT OF FMS CREDIT BY INDIA

Mr. CONTE. How much of the ——— FMS credit extended from 1965 to 1969 has India paid back—if any? You can get that for the record.

General WARREN. Very well, sir.

(The classified information was furnished to the Committee.)

Mr. CONTE. Off the record.

(Discussion held off the record.)

General WARREN. Sir, you might be interested in the overall picture. No country has, in recent years defaulted to any extent in repaying FMS credit.

Mr. CONTE. How much of foreign military credit sales was involved in the jets that we sold to Israel? You can get that for the record. I think it is very important to have it.

General WARREN. I have it here. I will put it in the record.

(The classified information was given to the Committee.)

RED CHINESE JET SALES TO AFRICA

Mr. CONTE. The Christian Science Monitor on September 6, 1969, reported that Red China was going to give Tanzania jet strike aircraft and naval assault vessels. Has anything happened on this? What does CIA say about it? Have they given any jet aircraft to Tanzania?

General WARREN. I don't know, sir. I will find out and supply an answer for the record, if I may.

Mr. CONTE. All right.

General WARREN. Do you know, Chris?

Mr. CHAPMAN. I haven't seen anything.

Mr. CONTE. We could start a beautiful jet club in Africa, like the one that has been started in Latin America. I don't know what they are going to use those jets for—to knock down elephants maybe.

General WARREN. I will supply the information.

(Classified information was furnished to the Committee.)

Mr. CONTE. General, I have no further questions. Thank you very much.

General WARREN. Thank you.

Mr. PASSMAN. I have several questions prepared by Mrs. Reid, who is unable to be here due to illness, which she asked me to submit to you for appropriate answers.

TYPE OF MILITARY PURCHASES BY THE REPUBLIC OF CHINA

Mrs. REID. Are the purchases of military equipment by the Government of the Republic of China being made on a cash basis or through long-term credit?

General WARREN. The Republic of China is purchasing by both cash sales and with foreign military sales long-term credit. For fiscal year 1969 China procured about $32 million on a cash basis and $20 million on a FMS credit basis. For the current fiscal year, fiscal year 1970, we estimate China will procure about ——— on a cash basis and ——— on a FMS credit basis.

INTEREST CHARGE ON CREDIT SALES

Mrs. REID. What is the usual interest charge for commercial and military credit sales?

General WARREN. The usual interest charge to purchasing countries for credit sales of defense articles and defense services is currently 7½ percent. This rate is in accordance with applicable standards and criteria developed by the Department of State, Treasury and Defense and published February 17, 1969.

(Copy of criteria follows:)

FINANCIAL STANDARDS AND CRITERIA FOR FOREIGN MILITARY CREDIT SALES

General

Financial standards and criteria for credit sales and guaranty transactions under sections 23 and 24 of the Foreign Military Sales Act are set forth herein. Each credit or guaranty transaction, like other transactions under the act, will be in accordancce with the foreign national security, and financial policies of the United States. Specific financial standards and criteria are as follows:

Recipients

1. Credit or guaranty assistance should be extended only for sales to countries which have a demonstrable financial need for credit assistance, for example, foreign exchange or budgetary needs.

2. There should be a reasonable expectation of repayment in dollars by the country or international organization acquiring the defense articles or defense services.

3. Private or Export-Import Bank financing facilities will be relied upon to the maximum extent possible for sales to the economically developed countries.

4. Defense Department credit assistance and guarantees offered under the act will normally be utilized only for economically less developed countries and will take into account U.S. military and economic assistance which such countries may be receiving. Private financing facilities will be relied upon to the extent feasible.

5. Guaranties against political and credit risks of nonpayment may be issued to any juridical entity doing business in the United States—excluding U.S. Government entities.

6. Credit assistance should not be extended when the transaction would place an undesirable burden on a purchasing country's foreign exchange resources, create excessive claims on future budgets—for example, induced expenditures for maintenance, spare parts, replacement, and indirect support and organization costs—or otherwise materially interfere with its development.

Terms

7. Credit sales will be executed on terms of repayment in U.S. dollars to the U.S. Government of not less than the value thereof within a period not to exceed 10 years after delivery.

8. When only Defense Department credit is involved in a transaction it will carry interest rates not less than cost of money to the U.S. Government.

9. Credit extended through private sources using Department of Defense guaranties will carry rates, terms, and conditions determined by negotiation with private lenders, subject to Treasury concurrence. Fees of not less than one-fourth of 1 percent shall be charged for such guaranties.

10. A transaction in which direct Defense Department credit is combined with credit extended through private sources will carry an interest rate on the Defense Department credit such that the interest rate for the combined package is not less than would be appropriate under paragraph 8 above.

11. Guaranties shall be backed by 25 percent reserve.

Exceptions

Exceptions to these financial standards and criteria may be required to serve the U.S. interest. For example, U.S. foreign policy, economic, or military considerations relating to proposed sales transactions may justify concessionary interest rates or other credit or guaranty assistance at variance with the guide-

lines set forth above. Such exceptions will be made only after consultation among State, Treasury, and Defense.

Review

At least annually, the Departments of State, Treasury, and Defense will review these standards and their application, and the Department of the Treasury will be responsible for obtaining the advice of the National Advisory Council on International Monetary and Financial Policies.

DEFAULT

Mrs. REID. Also, are there any countries which have defaulted in payments?

General WARREN. There have been no defaults on payments due on credit sales actions financed or guaranteed by the Department of Defense.

SUSPENSION OF SELECTED DELIVERIES FROM GREECE

Mrs. REID. What effect, if any, has the suspension of shipments of some major items of military equipment had on moving the Greek Government toward the return of constitutionality? Do you foresee that the suspension will be lifted soon?

General WARREN. The Greek people voted a constitution in September 1968. However, our MAP suspension policy has not resulted in further political progress of the kind we want in Greece. It has, however, created equipment shortages and I would hope that a determination on this matter would be finalized in the near future.

PHILIPPINE INTERNAL SECURITY

Mrs. REID. One of our objectives with respect to the Philippines is to maintain internal security. Is there any particular problem in this regard there at this time?

General WARREN. In regard to particular internal security problems at present, there has been a resurgence of HUK activity in the central Luzon area, although not of the proportions to threaten the control of the central government. In addition, there recently have been a series of student-led demonstrations and riots which have caused concern to the government; as well as a chronic law and order problem which President Marcos' administration is trying to control.

PHILIPPINE POSITION ON VIETNAM

Mrs. REID. What is the attitude of the Philippine Government regarding our present policies in Vietnam?

General WARREN. Philippine Government officials have repeatedly made statements supporting U.S. actions in Vietnam, and public polls have supported the same conclusion, despite considerable adverse criticism in columns of certain Philippine newspapers.

Referring to Vietnam in his state of the nation address last January 26, President Marcos declared that "deescalation in Vietnam has at the very least a symbolic value," namely to show that a will exists to find means for ending the war.

For its part, the Philippine Government, which last December withdrew virtually all of its military engineering and civic action unit—PHILCAG—from Vietnam, still maintains a contingent of approximately 130 men there, who are primarily involved in medical work. President Marcos explained that he had recalled PHILCAG because "funds for its maintenance ran out and because it was needed for similar humanitarian service in central Luzon."

FRAGMENTIZING BY TRANSFERS TO DEFENSE BUDGET

Mr. PASSMAN. Do you think it would be a lot better to make the case that the proposed appropriation is not sufficient, rather than to switch programs to the Defense budget, for strictly monetary reasons, when various programs have been under the military assistance program from its inception? If you let ——— go to the Defense budget, subsequently you will transfer other nations to that budget.

I am not being critical; I am pointing out the facts of life. That is what has happened to the aid program. It has been so fragmentized that it takes a very astute Member of Congress to try to put all these programs into one table to show the total amount of foreign aid and assistance that is in the Federal budget.

If we start putting more of the military assistance under the Defense budget, we will never be able to keep up with it. I would much prefer to give you an adequate appropriation rather than to have the executive put more programs into the Defense budget. Eventually, we may wind up with no military assistance program, as such, because it will all be in the Defense Department budget. But repeating, it's a budgetary advantage rather than any other advantage?

General WARREN. That's correct, sir.

Mr. RIEGLE. Would you yields at that point? It's much easier to get additional money if it's buried in the massive Defense budget than if it requested and set forth here in this smaller budget. If that is the case, it's a lot better for it to be right here in this subcommittee.

General WARREN. ———.

Mr. CONTE. You know, Mr. Chairman, it's a lot easier to find a needle in a thimble than to find a needle in a haystack.

COLLECTIVE SECURITY ARRANGEMENTS

Mr. PASSMAN. That's right. If the gentleman will yield further. I think this is important. How many countries are we, under treaty, guaranteed to protect?

General WARREN. There are 42 countries with which we have security arrangements, Mr. Chairman, but we aren't necessarily bound to protect any of them. All of our multilateral and bilateral treaties contain a commitment that the United States will take whatever action it decides is appropriate under its normal constitutional processes.

Mr. PASSMAN. How about NATO and SEATO?

General WARREN. The language is similar.

Mr. PASSMAN. I know. Actually, then we are not legally bound to go to their defense in case they are attacked then?

General WARREN. To the best of my knowledge, no sir. If I may give you an example, the NATO agreement concludes that we will "take such action as is necessary, including the use of armed forces, to restore and maintain the security of the North Atlantic area."

Mr. PASSMAN. I see.

General WARREN. Our treaty with Japan uses the language I quoted, that we "would take action in accordance with our constitutional processes." Other treaties have that same clause in them.

Mr. PASSMAN. You might put them in the record.

General WARREN. I will do that; yes, sir.

(The information follows:)

INTER-AMERICAN TREATY OF RECIPROCAL ASSISTANCE

ART. 3.1. The high contracting parties agree than an armed attack by any state against an American State shall be considered as an attack against all the American States and, consequently, each one of the said contracting parties undertakes to assist in meeting the attack in the exercise of the inherent right of individual or collective self-defense recognized by article 51 of the Charter of the United Nations.

NORTH ATLANTIC TREATY

ART. 5. The parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all and consequently they agree that, if such an armed attack occurs, each of them, in exercise of the right of individual or collective self-defense recognized by article 51 of the Charter of the United Nations, will assist the party or parties so attacked by taking forthwith, individually and in concert with the other parties, such action as it deems necessary, including the use of armed force, to restore and maintain the security of the North Atlantic area.

TREATY OF MUTUAL COOPERATION AND SECURITY WITH JAPAN

ART. V. Each party recognizes that an armed attack against either party in the territories under the administration of Japan would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional provisions and processes.

SECURITY TREATY MITH AUSTRALIA AND NEW ZEALAND

ART. 4. Each party recognizes that an armed attack in the Pacific area on any of the parties would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional processes.

MUTUAL DEFENSE TREATY WITH REPUBLIC OF THE PHILIPPINES

ART. 4. Each party recognizes that an armed attack in the Pacific area on either of the parties would be dangerous to its own peace and safety and declares that it would act to meet the common dangers in accordance with its constitutional processes.

MUTUAL DEFENSE TREATY WITH REPUBLIC OF KOREA

ART. 3. Each party recognizes that an armed attack in the Pacific area on either of the parties in territories now under their respective administrative control, or hereafter recognized by one of the parties as lawfully brought under the ad-

ministrative control of the other, would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its consitutional processes.

SOUTHEAST ASIA COLLECTIVE DEFENSE TREATY

ART. 4.1. Each party recognizes that aggression by means of armed attack in the treaty area against any of the parties or against any State or territory which the parties by unanimous agreement may hereafter designate, would endanger its own peace and safety, and agrees that it will in that event act to meet the common danger in accordance with its constitutional processes. Measures taken under this paragraph shall be immediately reported to the Security Council of the United Nations.

MUTUAL DEFENSE TREATY WITH REPUBLIC OF CHINA

ART. 5. Each party recognizes that an armed attack in the West Pacific area directed against the territories of either of the parties would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional processes.

U.S. COMMITMENTS TO THE UNITED NATIONS

Mr. PASSMAN. How about our commitments to the U.N.?

General WARREN. I do not know.

Mr. PASSMAN. Korea was a U.N. engagement.

Mr. CHAPMAN. Based on a U.N. resolution, sir.

Mr. PASSMAN. It was based upon President Truman's decision, was it not? He had plenty of guts and he was a great President. He ordered General MacArthur into Korea before the resolution was ever approved by the U.N. But we do have certain commitments to the U.N., do we not?

Mr. CHAPMAN. I do not know of any.

Mr. KNAUR. No peacekeeping commitments, sir.

Mr. PASSMAN. In other words, the Korean war then—was a U.N. war we know in name only. But on what basis did the other nations come in? If the U.N. adopts a resolution, then we are committed to go in, aren't we?

General WARREN. To the best of my knowledge, sir, we are not by any treaty committed to employ military force although we might elect to do so.

Mr. PASSMAN. If there is a peacekeeping resolution before the United Nations and the U.N. adopts it aren't we then obligated to commit our troops?

General WARREN. Sir, I am not familiar with our U.N. arrangements.

Mr. CHAPMAN. We have no legal commitment, sir, to any U.N. resolution, unless we agree.

Mr. ALNE. If the U.N. resolution is adopted in the Security Council, I believe that requires unanimous adoption. If we are a member, it means we would have agreed at that time. But once we have agreed then, as we did in Korea, we would take the action.

U.S. INVOLVEMENT IN KOREA AND VIETNAM

Mr. PASSMAN. When we entered Korea, the adoption of the resolution was subsequent to the President sending in the troops wasn't it?

Mr. ALNE. I don't know that.

Mr. PASSMAN. I think it was right. I think Mr. Truman had courage and I think it was necessary for him to take immediate action.

Mr. CONTE. Actually, Mr. Chairman, you do not seem to need any treaties because Vietnam doesn't belong to any treaty with the United States, as I understand it.

Mr. PASSMAN. So many times people say, "We have committed ourselves, so it's a moral obligation."

Mr. CONTE. But with Vietnam there is no treaty. They don't belong to SEATO or CENTO.

Mr. CHAPMAN. It's not a member of SEATO, sir. But it is one of the protocol states—no, one of the states that could be——

Mr. RIEGLE. Do you realy want to make that case here today?

Mr. CHAPMAN. No, I don't.

Mr. PASSMAN. I am a bit encouraged. According to the testimony of the witnesses today, we have no legal commitment to get ourselves involved beyond the point of where we are presently. And we could pull all of our troops out of Korea and we would not violate any legal obligation, would we?

General WARREN. We would not violate the Mutual Defense Treaty. However, we have a commitment with the Koreans to consult with them prior to any major troop withdrawals.

Mr. PASSMAN. We would not violate any legal obligation. And the same thing is true in Vietnam?

Mr. CHAPMAN. That's right.

Mr. RIEGLE. It's good to have that statement on the record.

Mr. CONTE. General, this is all that you are asking for, everything that is up, in your books and what you have stated here today?

General WARREN. Yes, sir.

Mr. CONTE. Unless you come up with a supplemental?

General WARREN. This is correct. We are asking three things, sir; approval of our request for funds for foreign military credit sales on both fiscal year 1970 and fiscal year 1971 and of our 1971 Military Assistance Program budget request.

U.S. COMMITMENTS TO THE U.N.

Mr. PASSMAN. There is one point we haven't cleared up. If the U.N. Security Council, by adoption unanimously, agrees that we are going to go into a country for peace-keeping purposes, does that obligate us to move in?

Mr. CHAPMAN. Unanimous means that the United States would vote.

Mr. PASSMAN. I know that, but you have one man representing the United States and voting the U.N. Security Council. But if the U.N. Security Council unanimously adopts a resolution to go into some country such as Korea, is that a legal commitment on the part of the United States?

Mr. CHAPMAN. But, sir, the United States has a veto power. It's one of the five.

Mr. PASSMAN. I just said if the resolution was unanimously adopted. How could the United States veto it, if it was unanimous. If it is unanimous and our delegate voted for it, do we have a legal commitment?

Mr. CHAPMAN. It means there has been a national decision to go in.

Mr. PASSMAN. What do you mean a national decision?

Mr. CHAPMAN. But it's not a U.N.-imposed decision. We have no legal obligation toward the U.N.

Mr. PASSMAN. I haven't received an answer yet. If the U.N. Security Council unanimously decided—with our delegate present and voting—that we are going to go into the nation X for peace-keeping purposes, is that a legal commitment of the United States to go in? I think we need an answer. Is that right, Mr. Secretary?

Mr. ALNE. If you're addressing me, sir, that is not my field of expertise. But as a citizen, I would say yes, sir.

Mr. PASSMAN. I thought that is what you would say! Of course, that is the way it operates, the Constitution notwithstanding!

Mr. KNAUR. But, sir, may I say that if the United States Delegate to the United Nations voted in favor of such a resolution, that favorable vote would be the result of decisions taken only after consultations here in Washington which would include the U.S. Congress.

Mr. PASSMAN. There was no such consultation when we went into Korea.

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

Mr. PASSMAN. I do know. I wish you would cite something to the contrary, if you have it.

Mr. CONTE. They may come in for an appropriation later on, but I don't think they would come up here and discuss it with us or we would have any debate over it.

Mr. KNAUR. I said consultation, not congressional resolution.

Mr. PASSMAN. We have had a consultation this afternoon!

Mr. CONTE. He may come up and talk to the Speaker of the House and the Minority Leader or with the Chairman of the Foreign Affairs Committee.

Mr. PASSMAN. The gentleman answered correctly.

Mr. CONTE. They didn't come before Otto Passman's committee, and discuss it with us.

Mr. KNAUR. No.

Mr. PASSMAN. I expected the gentleman to answer it correctly. Certainly we are legally committed to go in. You confirmed it. Now I want that statement to remain in the record as being confirmed, or I want some specific evidence that it's not correct. There was absolutely no request for a declaration of war when President Truman moved into Korea. We woke up one morning and we were in. Off the record.

(Discussion held off the record.)

Mr. PASSMAN. Mr. Riegle?

U.S. POLICIES TOWARD VIETNAM AND GREECE

Mr. RIEGLE. Thank you, Mr. Chairman. As I have listened to the arguments that have been advanced over the years with respect to why we are involved in Vietnam, obviously there are a lot of points that are made and the story changes a little bit, based on what prior time period you chose to study the story by the administration, and so forth.

But certainly part of our expressed rationale by the executive branch for being in Vietnam is to prevent some sort of a totalitarian regime from taking over in South Vietnam, whether it be an insurgency that

is directed and assisted by North Vietnam or whether it be something that is primarily an insurgency from within South Vietnam.

But in any event, part of the rationale, as I understand it, is to prevent that kind of a regime from taking over; one that would snuff out democratic processes, and so forth. Is this a reasonable statement from your point of view?

General WARREN. Yes, sir.

Mr. REIGLE. And recognizing it's just part of the reason, but having said that, how do we really justify our position today in supporting the military regime that is in power in Greece? In a sense it's a totalitarian regime because it has snuffed out democratic processes and there are political prisoners, as I understand it, who are in jail.

How do we justify these two positions? How do we reconcile the fact that we are fighting a war in one part of the globe to prevent that kind of a regime from coming into being and at the same time we are in a position of supporting a military regime that exhibits some of these same characteristics in another part of the globe?

General WARREN. I believe the two are so different that they should be considered separately.

U.S. INTERESTS IN GREECE

I would like to coment, if I may—and in a minute ask Mr. Chapman to add his comment—in regard to Greece. We are committed to uphold NATO, and Greece is a key nation in NATO. While the change of government was not constitutional, I don't think the United States can afford to turn her back on all of the countries in the world that have governments which took over by coup. Greece is a key and strategic country in which we have complete freedom to use bases and harbors for our own forces, and she is a strong ally.

I had a briefing the other day by DIA on all the atrocity charges against Greece, and you might be interested in what I was told. They say it's largely a result of propaganda efforts by some minorities which oppose this government. They have rather concrete information that there probably were a few cases of torture—but very few—and that they are grossly exaggerated.

Her role in NATO is the main reason we continue to support Greece.

Mr. RIEGLE. Does that mean then that we would likely continue to maintain support there, regardless of what kind of a regime took over? It seems to me that you made the case that that piece of real estate is so strategic, from the point of view of our security interests, that regardless of the type of regime that was in place there, we would probably continue to do business with them. Is that right?

General WARREN. I don't think so, but this would be a matter for review and decision by the President. Each case is different.

Our present actions with respect to Greece are an attempt to retain her support and friendship to the extent possible. Everyone hopes that the new regime will make progress toward a different type of government.

Mr. RIEGLE. Are we puting much pressure on them to do that, to move to a democratic form and reestablish free elections and throw off this form of dictatorship under which they are operating now?

General WARREN. I would like to ask Mr. Chapman to comment on that in a minute.

SUSPENSION OF MAJOR ITEM DELIVERIES TO GREECE

The curtailment delivery of major items of military equipment to Greece was, of course, a move designed to put the pressure on them. I think personally, from talking to my friends over there, that it has backfired and had a negative result. I do not know what diplomatic approaches have been made, and would like to ask—if the chairman doesn't mind—that Mr. Chapman from the State Department comment.

Mr. PASSMAN. Certainly.

U.S. POLICY AND ACTIONS WITH RESPECT TO GREECE

Mr. CHAPMAN. I think the general has covered the essential points. From the national interest point of view, Greece is part of NATO and we have installations in Greece which are important, as evidenced by the fact that in 1967, after the June war, the Greek airfields were available to us for evacuating American citizens from the Middle East.

And the judgment has been that it's preferable to keep Greece as a member of the NATO club and to work quitely on the regime to try to move it back toward a democratic system rather than isolate it completely.

Mr. RIEGLE. What is the attitude of the European Defense Ministers? What is their attitude with respect to this?

Mr. CHAPMAN. The European Council?

Mr. RIEGLE. Yes.

Mr. CHAPMAN. It's a member of the European nations and it was about to vote Greece out of it when Greece left the Council.

Mr. RIEGLE. I see.

Mr. CHAPMAN. But the fact is that Greece remains a member of NATO and that no European country has so far tried to push Greece out of that organization.

Mr. RIEGLE. But this regime apparently lacks legitimacy in the eyes of these other European nations that live a lot closer to Greece than we do.

Mr. CHAPMAN. There is as much criticism over there as there is here of the regime.

Mr. RIEGLE. I would like you, if you would, to detail for the record—and I mean be specific—detail for the record exactly what progress, if any, has been made toward reinstituting democratic processes in Greece since this regime has taken over.

Now, we pump a lot of money in there and we have leverage. I don't know whether we use it or not, because I don't know how chummy we are with these military rulers and I don't know to what extent we just go through the motions of urging them to get back the democratic processes versus really meaning it.

So I would like to see in the record some tangible summary of exactly what has taken place in that respect, and if that is pretty thin, then I think that is something we are going to have to dramatize and maybe help you help them a little more. Because I am distressed that we don't see more progress. At least I don't see it.

(The information follows:)

EVOLUTION OF DEMOCRATIC PROCESSES

April 1967: Coup.

September 1968: Publication of the new Constitution.

September 1968: Referendum on the new Constitution (vote of over 90 percent in favor).

Although with the referendum the new Constitution was formally adopted, a number of provisions pertaining to civil liberties and political life were suspended. It was announced that suspended articles of the Constitution would be validated in accordance with a Government plan.

November 1968: Right of assembly and right to strike (for labor grievances only) restored to labor unions.

August 1969: Restoration of some constitutional guarantees pertaining to arrest and detention, trial of civilians, press and property. Laws in force prior to April 1967 to apply with the exception that crimes against law and order and national security would continue to be tried in court-martial. Court-martial for other than specified crimes above abolished.

Mid-November 1969: Implementation of a new press law which granted some extensions to press freedom. Precensorship abolished.

April 10, 1970: Implementation of article 10 of the Constitution which provides for protection against arbitrary arrests and imprisonment.

Since the coup of April 1967 when over 6,000 political prisoners were rounded up, the regime has released all but about 1,500.

In the fall of 1969 the Greek Government concluded an agreement with the International Committee of the Red Cross for inspection of all places of detention.

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

GREEK MILITARY PURCHASES FROM THIRD COUNTRIES

Mr. RIEGLE. For the record, is the Greece regime buying military hardware from other countries at this time?

General WARREN. Some. In fiscal 1969, Greece purchased $8.3 million worth of equipments from Germany and from Italy. If our embargo on U.S. major item deliveries is not lifted, it's my personal opinion that she will buy a lot more. I understand Greece has the money; and if the United States will not sell her some of the equipment she wants, she will very definitely buy such items as Mirages in Europe.

IMPACT OF LOWER MANPOWER LEVELS IN VIETNAM

Mr. RIEGLE. Let's go back to Vietnam for a minute. As I understand it, we now have in Vietnam approximately a million-odd Vietnamese under arms in one category or another in terms of regulars, irregulars, and so forth. Now the number varies a bit. But it's in that range.

Of course we were up around 540,000 Americans or close to that in terms of our high point and we are down to what, about 425,000?

Mr. CHAPMAN. We will be down to 430,000 next month.

Mr. RIEGLE. In any event, it seems to me that their manpower has not gone up substantially in the last 6 months, if you want to talk about the number of men under arms. And yet we are withdrawing American troops, and it seems to me that if you go to the point where the allied manpower level was at its height—back when the Filipinos had their contingents there—I think some of the other countries that were participating have also scaled down. We are taking some of our

troops out. However, we were not able to snuff out the insurgency there with that higher level manpower.

Now the combined manpower level is dropping all the time. Of course we are trying to shift more of these combat operations to the Vietnamese. If we get to the point where we are substantially out of the combat business, I want to know if it's really practical to assume that this Vietnamized allied force can really police the whole of South Vietnam. It's a large geographical area. When we were not able to do that with this same approximate number of men and roughly 500,000 Americans on top of it, how is that job going to get done when you subtract the better part of 500,000 Americans? Or can it be done?

General WARREN. I must claim ignorance because I have not been involved in planning the operations of the Vietnam war, although I have been over there several times. May I ask Mr. Chapman if he has any comment.

Mr. CHAPMAN. I am like the General—I haven't been involved. But my understanding is that the expectation is that the Vietnamese forces can be improved. Their capabilities can be improved so that they can assume a larger burden of the war than they have carried in the past.

Mr. RIEGLE. But suppose you make them just as good as we are—and I don't think anybody is quite that optimistic that they can be made that good—and they are still fewer in number than we were at a combined high point and weren't able to succeed, how are they going to get the job done? The answer is, I think they are not going to be able to get the job done.

I want to say for the record, I suspect you're not going to be able to take and defend all that territory, and you are going to have to decide what part you want to cover and what part you are going to have to decide you can't cover. Because you are not going to have sufficient manpower to cover the job.

Mr. PASSMAN. The distinguished gentleman from Michigan must be a deep thinker because he prods to where he opens up a new line of questioning altogether. I want to say that sincerely. You make a great contribution, Mr. Riegle, to these hearings and one question brings on another.

So if the gentleman will yield very briefly.

Mr. RIEGLE. Yes, Mr. Chairman.

TURKISH CONCERN OVER GREEK MILITARY PURCHASES FROM FRANCE

Mr. PASSMAN. This is a very recent article—dated February 27, 1970—from the Washington Post.

Around the World—Istanbul, Turkey expressed concern yesterday over Greek plans to buy perhaps four gunboats and 30 Mirage jets from France.

Turkey fears the deal would upset the military balance between itself and Greece, the Manchester Guardian reported. It is possible that Turkey, concerned over Cyprus where last year's hopes for a settlement with Greece have evaporated, would increase its military strength if Greece gets the new weapons.

What kind of a race are we in?

General WARREN. I do not believe we are, exactly, in any kind of a race. However, both Greece and Turkey have sought to maintain an approximate balance in the weapons required to fulfill their NATO commitments. I expect that acquisition of a more modern weapon system by one of these countries would result in an effort by the other to acquire an equally effective system.

Mr. RIEGLE. I would like, if you would, to have you detail for the record exactly what additional steps the countries of Southeast Asia and the periphery of Southeast Asia have done with respect to providing more for their own defense capability.

What I mean by that is the increases in manpower levels in their military operations, and I mean all the countries in this general area—by country. Would you spell that out? I have the feeling that as we try to lower our profile and as we start to pull American troops out of South Vietnam—and we are now in the process of scaling down in Thailand as well—there is not a corresponding increase in the tooling-up levels of the other countries in Southeast Asia and the periphery of Southeast Asia. If that is so, I think it's important that we get that on the record now, so we can get some feel for what the balance of power is apt to look like if, in effect, we continue to lower our profile and these folks don't do more on their own behalf.

Would you supply that for the record, by country?

General WARREN. The Nixon Doctrine has been publicly formulated too recently to permit the nations of Asia to assess their defense needs in relation to the implications of the Doctrine. Moreover, the size of a military organization is not the only criterion by which to judge military capability. For example, it is possible that with increased modernization a reduction in the strength of some countries military organizations could be accomplished without degrading capability and would be desirable.

I will submit a table showing the present military strengths of selected Asian countries.

(A classified table was submitted to the committee.)

Mr. CONTE. If we hadn't gotten in Vietnam originally and the Soviets didn't get in there, they would still be playing with their yo-yos. We created this armaments build-up.

Mr. PASSMAN. There is no question about that. Off the record.

(Discussion held off the record.)

Mr. PASSMAN. Gentlemen, you may think we have left you off lightly. You will have to wait for the mark-up before you have the final answer.

I want to say, General Warren, that it's not very good, possibly, for the chairman to be too complimentary of the witnesses. But I want to say sincerely that you run a great show. During my 16 years as chairman, I have never known of a man to come before this committee who was so forthright, had so much information and would put it right on the line. I want to commend you. I know now why you have those three stars. You're completely forthright and you have certainly surrounded yourself with a very able staff. They, too, have been very cooperative in furnishing information.

I am sure that the committee will take all these things into account when we mark up the bill. You have made your case and we want you to know that we are extremely grateful.

This will conclude the hearings on the fiscal year 1971 military assistance program, unless of course there is a supplemental request. If so, then we will have to have hearings on the additional request.

Mr. CONTE. Mr. Chairman, if I may, I would like to join with you in those remarks. I think that the General has done an outstanding job here, both in his presentation and in answering all of the questions forthrightly and to the point. He certainly is highly capable and has done his homework. I just feel badly that such an outstanding general, such an outstanding guy, has been given such a tough job.

General WARREN. Thank you, sir.

MONDAY, MARCH 2, 1970.

PEACE CORPS

WITNESSES

JOSEPH H. BLATCHFORD, DIRECTOR
MARC LELAND, GENERAL COUNSEL
WILLIAM F. WHALEN, DIRECTOR, BUDGET
WILLIAM INGLIS, DIRECTOR, ADMINISTRATION AND FINANCE
MELVIN K. NAJARIAN, EXECUTIVE OFFICER
EUGENE BUEHLER, PROGRAM BUDGET OFFICER
HUGH B. KEY, DIRECTOR, CONGRESSIONAL LIAISON
CHARLES ZELLERS, DIRECTOR, OFFICE OF VOLUNTEER PLACEMENT

SALARIES AND EXPENSES

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 stimate
Program by activities:			
1. Volunteer and project costs	70,777	66,350	67,400
2. Administrative expenses	29,524	32,100	31,400
Total obligations	100,301	98,450	98,800
Financing:			
Unobligated balance lapsing	1,650		
Budget authority	101,951	98,450	98,800
Budget authority:			
Appropriation	102,000	98,450	98,800
Transferred to other accounts	−49		
Appropriation (adjusted)	101,951	98,450	98,800
Relation of obligations to outlays:			
Obligations incurred, net	100,301	98,450	98,800
Obligated balance, start of year	37,533	30,307	27,157
Obligated balance, end of year	−30,307	−27,157	−26,357
Adjustments in expired accounts	−3,095		
Outlays	104,433	101,600	99,600

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1969 actual	1970 estimate	1971 estimate
PEACE CORPS			
Personnel compensation:			
Permanent positions	14,933	16,044	15,493
Positions other than permanent	2,435	2,498	2,376
Other personnel compensation	211	210	207
Special personal service payments:			
Employees	1,268	619	458
Volunteers and trainees	27,428	24,975	23,701
Total personnel compensation	46,275	44,346	42,235
Personnel benefits:			
Civilian employees	1,724	1,832	1,834
Volunteers	1,045	958	1,077
Travel and transportation of persons	13,682	12,396	13,151
Transportation of things	2,670	2,490	2,528
Rent, communications, and utilities	4,106	4,254	4,432
Printing and reproduction	753	738	742
Other services	25,334	26,574	27,486
Supplies and materials	3,527	3,416	3,853
Equipment	1,100	1,365	1,380
Insurance claims and indemnities	60	56	57
Total obligations, Peace Corps	100,276	98,425	98,775
ALLOCATION TO STATE, OFFICE OF INSPECTOR GENERAL, FOREIGN ASSISTANCE			
Other services	25	25	25
Total obligations	100,301	98,450	98,800

PERSONNEL SUMMARY

	1969 actual	1970 estimate	1971 estimate
Total number of permanent positions	1,248	1,165	1,165
Full-time equivalent of other positions	334	330	313
Average number of all employees	1,626	1,539	1,470
Average grade, grades established by the Foreign Service Act of 1946, as amended (22 U.S.C. 801-1158) (as amended by Public Law 88-426):			
Foreign Service reserve	5.0	5.0	5.0
Foreign Service staff	7.7	7.5	7.6
Average salary, salary established by the Foreign Service Act of 1946, as amended (22 U.S.C. 801-1158) (as amended by Public Law 88-426):			
Foreign Service reserve	$13,604	$14,974	$15,070
Foreign Service staff	$7,516	$8,227	$8,236
Average salary of unenumerated positions	$4,691	$5,061	$5,112
Average salary of ungraded positions	$2,694	$2,829	$2,970

Mr. PASSMAN. The committee will come to order.

We will take up this morning the fiscal 1971 budget request of the Peace Corps. We have the Director, Joseph H. Blatchford, and other witnesses whose names will be inserted in the record.

I assume that you have a statement, Mr. Director, that you would like to make to the committee.

Mr. BLATCHFORD. Yes, sir, Mr. Chairman.

Mr. PASSMAN. You may proceed in your own way, Mr. Director.

GENERAL STATEMENT

Mr. BLATCHFORD. Mr. Chairman and members of the committee, 10 months ago I appeared before you for the first time. At that time I said that two purposes which the Congress established for the Peace Corps—to acquaint Americans with life in other countries, and to acquaint other people with us—were being fulfilled, but that a third

purpose—to contribute to the trained manpower needs abroad—was in need of attention. Today it is time to discuss that conclusion with you again and to report on five improvements which were suggested for the Peace Corps at that time.

THE EXAMPLE OF INDIA

To understand where the Peace Corps stands today and what must be done in the future, consider the case of one illustrative country, India. The Peace Corps has 550 volunteers in India with 360 in agriculture, 75 in education, 40 in health and 30 in small business development. All but a handful live in the remote areas, away from the large cities.

In recent years volunteers have participated in one of the most exciting breakthroughs of our times, an increase in food production which has been called the "green revolution." Volunteers have helped introduce new crops, farm mechanization, fertilizers, and pesticides. They have worked in water development programs, poultry and fishery projects, marketing and small industry development as they relate to food production.

Here are a few examples of what Peace Corps volunteers are doing today in India.

In Mysore State four volunteers formed a well blasting team which goes from village to village deepening wells for water storage. One particular team is composed of a mechanic from General Motors (who worked for 6 years as an auto mechanic), a 46 year old man who for 24 years worked in telecommunications for A.T. & T., a recent graduate from a trade school and a graduate in philosophy from Wisconsin.

In the State of Mysore three volunteers in a group of 16 without substantial previous experience in poultry raising have crossbred chickens for 18 months until they have now produced a sturdy strain of white leghorns that lay 50 to 60 more eggs per year than any other breed now raised in that area. The Governor of the state came to inaugurate the new Mysore chick strain. They need a poultry geneticist to carry through on the highly technical aspects of further crossbreeding—partly to give the Mysore government the expertise to carry through on the plan which is often very expensive.

In general it can be said that the volunteers are glad to be in India and that they feel part of the country's struggle to get ahead. And it can be said that those Indian officials who know them best appreciate the work of the volunteers.

But it can also be said that the volunteers recognize their own limitations. They see the need to recruit skilled volunteers who know more than they do about specific subjects. As for Indian officials they are now looking beyond the revolution of producing food to the equally difficult task of moving, storing and marketing food. They have turned to the Peace Corps for help. Also, several mayors talked to me about working in the cities which Peace Corps has all but almost ignored up to now. Several government officials would like to see the Peace Corps work with private groups and private industry in India.

The conclusions of the volunteers in India and Indian leaders—like volunteers and leaders in other countries—reinforced the conclu-

sions of task forces established last year to consider the health of the Peace Corps and to recommend cures for anything that ailed it. They support the program which the President has approved to adapt the Peace Corps to the changing times.

Many of these conclusions and recommendations I discussed with you last year, saying that in fiscal year 1970 we would test their validity. I am now prepared to report to you on five topics we discussed at that time.

FIVE STEPS TO IMPROVEMENT

First, we said last year that the Peace Corps should make a greater effort to get the kind of people we found the host countries asking for. The well drilling team is a success but we have too few volunteers who could form such a team. So we are going to American industry and to the vocational education schools in search of more volunteers of this kind. We have, for example, asked a major American manufacturer of tractors to help recruit tractor repairmen for India from among its employees. The company has agreed to do so.

Determined efforts are under way to double the number of experienced farmers in the Peace Corps and to attract from private industry the businessmen, engineers, and managers who would have the skills necessary to help market and store the wheat or multiply the growth of small businesses in places like India. We believe these efforts will pay off with a group of volunteers drawn from portions of the American population previously ignored.

Second, I suggested the Peace Corps should change rules and restrictions to permit these needed workers to serve despite the fact they are older and often have families. Today the first six families under this pilot program are in training at Escondido, Calif., and by the end of calendar year 1970, 200 more should be in training.

Third, the Peace Corps should make a special effort to insure that it is adding a new resource to the countries served, not just filling manpower needs which should be met locally. I suggested we should help train local people who will replace Americans over a given period of time.

Today we are moving toward that goal. Twenty-eight percent of this summer's volunteers will go into new projects. We are now working with the planning ministries of other governments to set an end limit on the time American volunteers will be in a project and when local citizens can be expected to take over. We are assigning clearly stated goals to each project and working to insure that volunteers have adequate support.

Fourth, the Peace Corps should devise means for testing the effectiveness of its programs and establishing strict standards for performance. Under standards already established, requests for 967 volunteers this summer will not be filled, as the projects have been closely scrutinized to make sure that each individual request is actually needed. Staff and volunteer training is being improved. Guidelines for selection have been established to insure that preference will be given to those who have demonstrated an ability to exercise responsibility through work experience in the United States.

Fifth, Peace Corps administration should be improved. We have completed a reorganization of the Peace Corps which has tightened management and reduced the size of the Peace Corps staff by 15 percent.

TOWARD NEW SOLUTIONS

I have spoken of the changes we are making in the Peace Corps as new directions, which they are. But they are not new solutions, meaning that we still have a way to go. There will be a substantial shift this summer in the kinds of projects undertaken and the volunteers we send to fill them. However we can do better. For example, we should be able to make a greater contribution to vocational education and family planning. We intend to move more quickly on turning tasks over to local citizens and to help countries build their own cadre of volunteers. We can do more to cooperate with the international agencies such as the World Bank which are often aiming at the same goals.

But we are going ahead. The Peace Corps is changing because all the evidence from India and dozens of other countries supports the conclusion that it must change by combining the best of the old and the new.

FISCAL 1971 BUDGET

We intend to move in this direction, Mr. Chairman, under a budget requested for fiscal year 1971 of $98.8 million, the smallest request made by this agency since 1963. This figure is almost identical to the $98,450,000 appropriated for fiscal year 1970 with which we expect to support a total volunteer and trainee strength of 10,500 and a new input of 6,500 trainees.

In fiscal year 1971 we expect to maintain an estimated 10,000 volunteers and trainees, down 500 from this fiscal year, and send into training 7,000 trainees, an increase of 500 over this year.

Comparing the 1970 and 1971 programs, the principal funding changes are:

First, an increase of $1.7 million in training funds to provide for an increase of 500 trainees to bring the total to 7,000 new trainees in 1971.

Second, a decrease in overseas program costs and readjustment allowances of $1.1 million due to lower volunteer strength.

Third, a decrease of $700,000 in administrative expenses as a result of reductions we have made in administrative staffs, both here in Washington and overseas.

Fourth, a minor increase of $10,000 making a total of $200,000 to support Peace Corps efforts for the furtherance of international volunteer activities.

HALTING A DECLINE

As you will note, there is only one increase of any size, the $1.7 million in training funds. The planned training input of 7,000 for 1971 is not based on any intent to expand the Peace Corps, but rather to halt the steady decline in the number of volunteers over the last several years. If we are successful in reaching this input the number of volunteers and trainees will level off at about 10,000.

We are continuing our efforts to reduce costs. Our major effort in this regard has been to reorganize and reduce the size of our Washington and overseas staffs for greater efficiency. This action will reduce our administrative costs by $363,000 in 1970 and by a further $429,000 during 1971 for a total savings of almost $800,000.

The 1970's can be a decade of great optimism and accomplishment at home and abroad or it can become a time of cynicism and regression. I am convinced by those Americans I meet that there are still millions of Americans with the latter outlook ready to go to work on human problems. In the 1970's the Peace Corps will continue to be one place where sober idealism can be put to work.

Mr. PASSMAN. Thank you, Mr. Director, for your statement.

Let us start the hearings off with the understanding that any harsh questions or statements are not intended as an affront to the Director or to any of the witnesses. Neither are they intended to be offensive. But we are in much difficulty in this country as a result of inflation and, of course, this is brought about by the Government spending in excess of its income. When the Government spends money that it hasn't collected—printing press money—it takes on value only by diluting the value of everybody's money by the same amount. And we are guilty of it at every level.

There are many new programs in Government that could very definitely be dispensed with and it wouldn't do any harm, and in all probability it would do a lot of good. If there are any agencies that could be abolished, two of them would be the Peace Corps and the war on poverty. When I look at the record, knowing how new they are, and search and try to find some facts that there has been any good accomplished by either program, I can't find them.

Off the record.

(Discussion off the record.)

NEW BUDGET REQUESTS FOR FOREIGN AID AND ASSISTANCE

Mr. PASSMAN. Let's have it understood, that there is nothing personal about it. It is just a question of trying to do what I think I am elected to do.

I want to insert in the record at this point a table listing the new budget requests for authorization and appropriation for foreign aid and assistance to date in this session of Congress.

(The information follows:)

New budgetary requests for authorization and appropriation for selected programs of foreign assistance, 91st Congress, 2d session

1. Foreign Assistance Act (mutual security)	$2,163,000,000
2. Supplemental for supporting assistance	100,000,000
3. Overseas Private Investment Corporation	37,500,000
4. Receipts and recoveries from previous programs	386,325,000
5. Military assistance (in Defense budget)	1,900,000,000
6. International military headquarters	57,300,000
7. Economic assistance (in Defense budget)	117,000,000
8. Foreign military credit sales fund	272,500,000
9. MAAG's missions, and milgroups	167,300,000
10. Export-Import Bank, long-term credits	2,900,000,000
11. Export-Import Bank, regular operations	1,082,096,000
12. Export-Import Bank, export expansion program	100,000,000
13. Public Law 480 (Agricultural commodities)	932,500,000
14. Inter-American Development Bank (supplemental)	205,880,000

New budgetary requests for authorization and appropriation for selected programs of foreign assistance, 91st Congress, 2d session—Continued

15. International Development Association	$160,000,000
16. Asian Development Bank	20,000,000
17. Asian Development Bank—special funds (supplemental)	25,000,000
18. Asian Development Bank—special funds	35,000,000
19. Expanded multilateral assistance	540,000,000
20. Peace Corps	98,800,000
21. Permanent military construction—foreign nations	190,200,000
22. Contributions to international organization	144,611,000
23. Educational (foreign and other students)	45,474,000
24. Ryukyu Islands	6,952,000
25. Migrants and refugees	5,787,000
26. Trust Territories of the Pacific Islands	60,000,000
27. Pan American Highway (Darien Gap)	20,000,000
Total	11,773,225,000

Mr. PASSMAN. I am positive that you have some fine people in the Peace Corps. It is just a question of what agencies could be dispsensed with until we can bring Government expenditures under control.

FISCAL 1971 BUDGET

I believe this year your estimate is $98,800,000. That exceeds by $350,000 the 1970 appropriation, does it not?

Mr. BLATCHFORD. Yes, sir.

Mr. PASSMAN. You know how hard the President is working to try to balance the budget, don't you?

Mr. BLATCHFORD. Yes, Mr. Chairman.

Mr. PASSMAN. I just wonder why you wouldn't have a reduction to indicate good faith, since you are a part of this administration.

TOTAL APPROPRIATIONS SINCE INCEPTION OF PEACE CORPS

What has been the total appropriation to date to the Peace Corps?

Mr. WHALEN. The total appropriated through this fiscal year is $821 million.

Mr. PASSMAN. This proposed appropriation would bring it up to about $920 million, which is getting dangerously close to a billion dollars, isn't it?

Mr. WHALEN. That is correct.

TANGIBLE ACCOMPLISHMENTS OF THE PEACE CORPS

Mr. PASSMAN. Can you put your finger on a factual dollar's worth of good—other than your imagination—as to what you have been able to do with all that money? I ask that as a perfectly legitimate question. Put your finger on the good that has been done. Have you ever tried to balance it out to show whether we have any tangible results from this expenditure of over $800 million?

Mr. BLATCHFORD. Yes, I think so.

Mr. PASSMAN. Name one and we will move on.

VOCATIONAL TRAINING PROGRAM IN MALAYSIA

Mr. BLATCHFORD. For example, we were able to set up a vocational training program in Malaysia.

Mr. PASSMAN. What did you do in Malaysia?

Mr. BLATCHFORD. We provided teacher training.

Mr. PASSMAN. You are in a mythical field of accomplishment. Put your finger on something tangible. Are any of these people that you trained now running their country or have any important positions in the Government? We have been doing a lot of research—we know that we can draw on our imagination and point out where the Peace Corps has been—but I am talking about putting your finger on something tangible that shows that we have gotten a return on this investment of over $800 million.

Mr. BLATCHFORD. That is what I was mentioning, Malaysia, where 100 teachers were able to be trained to run their whole vocational training program.

Mr. PASSMAN. Who was running it before the Peace Corps went there?

Mr. BLATCHFORD. The Government of Malaysia was just setting up its own vocational training.

Mr. PASSMAN. They had one in the making themselves, didn't they?

Mr. BLATCHFORD. That is right. And they lacked the teachers.

Mr. PASSMAN. How do you know they couldn't have obtained the teachers and paid for them out of their resources? They have a pretty good economy. They got along before we went there, didn't they?

Mr. BLATCHFORD. But they didn't have any vocational training before.

Mr. PASSMAN. They were setting up a vocational training program before you arrived there. Isn't that right?

Mr. BLATCHFORD. That is right. And they needed outside assistance.

Mr. PASSMAN. How do you know they did? Why didn't you let them get started and see what they could do on their own before you people asked yourselves in?

Mr. BLATCHFORD. We didn't ask ourselves in. They requested some help with teachers so that they could train their teachers over a period of time and place their teachers—which they were able to do. Consequently, now the Peace Corps has phased out of that program and is no longer supplying the teachers.

Mr. PASSMAN. I think that part of the world had a civilization thousands of years ago. Is that right?

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. And they were getting along all right. Then you people go in for a few months with a few people and you just revolutionize everything there, I guess.

Mr. BLATCHFORD. We were able to work ourselves out of a job.

Mr. PASSMAN. I wish you could. I am for you if you can work yourself out of a job. You will have my support.

People in the so-called underdeveloped countries, to a very large extent, think pretty much the same, do they not? They have similar problems, do they not?

Mr. BLATCHFORD. The problems are similar, certainly. They have similar problems in fighting poverty.

Mr. PASSMAN. I don't know about fighting poverty. I don't know how you define poverty because from time immemorial in every tongue and in every civilization, even back in biblical days they had so-called poverty. Do you know why? Because people are just too lazy to work. Have you ever read the Bible?

Mr. BLATCHFORD. Yes.

Mr. PASSMAN. Let me see if you agree with this—talking about poverty: In this day when the Federal Government is talking about providing a guaranteed income for every one, regardless of whether or not he works, we wonder what the Apostle Paul in Christ's time on earth would have said on that subject. To find out what Paul thought in the day in which he did live, we have only to read Second Thessalonians, chapter 3, verses 10 and 11, in which he said:

For even when we were with you, this we commanded of you, that if any would not work, neither should he eat. For we hear that there are some which walk among you disorderly, working not at all, but are busybodies.

That is right out of the Holy Scriptures and there are many other similar quotes. There have been people who wouldn't work who call themselves poverty stricken from time immemorial. We say we have them in this country—don't we?

Mr. BLATCHFORD. Yes.

Mr. PASSMAN. But you just try to get some of them to work. Some day I will take you fishing down in my congressional district and I will show you where these so-called poverty stricken people live. I will just show you how happy they are, and you couldn't get them to work under any circumstances. You can beg them, but they won't work because they get these hand-outs.

Mr. Director, you stress poverty but in the so-called underdeveloped countries their problems are similar, aren't they, with respect to illiteracy, poor health, poor nutrition, and everything else?

Mr. BLATCHFORD. That is right. There are problems of education, disease, illiteracy, and so forth.

PEACE CORPS ASKED TO LEAVE MALAWI

Mr. PASSMAN. Now, for reasons we don't know—and chances are you don't either—I believe that prior to this year, I use the figure 11 countries and you use seven, the Peace Corps had been asked to get out of the country. The Washington Post on January 26, carried an article entitled "Malawi Ousts Peace Corps."

The article reads as follows:

BLANTYRE, MALAWI, January 26.—All U.S. Peace Corps volunteers will be withdrawn from this country by the end of 1971 following requests by the Malawi Government and the ruling Malawi Congress Party, it was announced.

There are about 150 Peace Corps volunteers working here with the ministries of health and education.

A resolution passed by the Congress Party's annual convention demanded that recruitment cease and that all volunteers leave within 18 months. Delegates cited "complaints by our people against the influence which Peace Corps volunteers have over our children and because of their bad conduct and behavior and their slovenliness."

Did you read that article?

Mr. BLATCHFORD. Yes, sir.

Mr. PASSMAN. How does it make you feel when you are asked to get out of these countries? Does it make you recognize, as I do, that maybe you never should have been there in the first place?

Mr. WHALEN. We only go where we are asked, of course.

Mr. PASSMAN. You have people soliciting business. How does it make you feel when you are asked to get out? Is it embarrassing?

Mr. BLATCHFORD. I think we have to realize——

Mr. PASSMAN. I asked is it embarrassing when you go in to a country and you are going to reform that part of the world and then after a little while they ask you to get out? Does it embarrass you?

Mr. BLATCHFORD. I don't think anyone enjoys being asked to leave.

DISENCHANTMENT OF VOLUNTEER IN ETHIOPIA

Mr. PASSMAN. Wouldn't that indicate that this program should be abolished right quickly? There is an article in this morning's paper, dated March 2, headed "Many Peace Corpsmen Leave Ethiopia."

Addis Ababa—The director of the Peace Corps in Ethiopia has resigned in protest against working in a repressive dictatorship "which cannot establish a social order with better answers to its problems than shooting and beating young people."

Beating whose young people—Ethiopians or the Peace Corps' young people?

Mr. BLATCHFORD. I think it is referring to the Ethiopian student strikes that have been going on in the last few months.

Mr. PASSMAN. You are a nice young man and all of you are nice young people. You all ought to resign en bloc. I would give you a job right away, because I could use a man with your intelligence, and the rest of you could get a job in free enterprise and do something worthwhile for your country.

When these articles are brought to the attention of President Nixon, I hope he has time to read them. I think a lot of people are misled about the Peace Corps. That is a misnomer in the first place. My good friend, Sargent Shriver did a selling job on the Congress to get it started. You are familiar with that. You people ought to muster your courage and ask that this program be abolished. When I pick up the paper and read these articles about the Peace Corps I want to hide.

NUMBER OF COUNTRIES WITH PEACE CORPS PROJECTS

I can only say this, taking your figure of nine countries where you discontinued a program, it looks to me as if that could be suspicious. How many countries are you operating in?

Mr. BLATCHFORD. Sixty-one by the end of the year.

Mr. PASSMAN. Nine countries is 15 percent of your total for this year. It looks as if that within itself would be sufficient for you to know that this program is possibly doing more harm than good, especially when you are being asked to get out. Furthermore, we would save some money.

EFFECT OF PEACE CORPS EXPENDITURES ON BALANCE OF PAYMENTS

Let us use an average appropriation of $100 million a year—how much does that contribute to our balance-of-payments deficit?

Mr. WHALEN. On an annual basis, Mr. Chairman?

Mr. PASSMAN. Yes.

Mr. WHALEN. Approximately $24 million.

Mr. PASSMAN. Do you realize that in 1968 we borrowed money from nations all over the world to lessen our deficit balance-of-payments situation. Are you familiar with that?

Mr. WHALEN. I thought our position was a little bit better each year.

Mr. PASSMAN. This past year is the worst it has been in the history of America. The year before it was bad. We showed a $93-million surplus, but do you know the reason why? We went all over the world where we had foreign aid programs going on and we checked the foreign exchange surplus of these recipient nations and then we would borrow as much of the excess as we could from them. We went over to Thailand. We found that those people, while we had given them about $1 billion in aid, they had created a surplus of over $1 billion. We went over there determined to borrow a quarter of a billion dollars from those people. They almost ran us out of the country.

Then they said, "We will tell you what you do. We will make you a loan of $100 million at a special rate of 6 percent, repayable in 4½ years". We took the check and got out of the country. So we borrowed sufficient money in 1968 to show a surplus in our balance-of-payments account. But Mr. Nixon stopped that practice of borrowing the first week that he was in office.

Mr. WHALEN. Considering the many factors involved in the balance of payments, such as our trade balance and——

Mr. PASSMAN. We have a trade deficit. We don't have a trade balance.

Mr. WHALEN. Considering these factors, the Peace Corps is really an infinitesimal part of the billions involved.

Mr. PASSMAN. That is true. So is the cancer germ, but eventually it kills you. But you know from little acorns big trees grow, and you are just a little bit of it.

The Committee on Appropriations will look over $11,700 million worth of foreign aid requests before it completes all of its hearings. And not one person that comes before the Committee will say that they had any thing to do with our deficit balance of payments. They say Old Tom is the one you ought to ask about that. When we finish the hearings we find that nobody has had anything to do to cause that deficit. It is always the other fellow. But every little bit adds to it.

Even if your figures are accurate $24 million is a sizable amount of money the way I look at dollars. This article states: "The United States reported today"—that is February 16, 1970—"a deficit of $6.99 billion in its balance of payments for 1969, the worst year on record." These are the things that are causing me concern, because everybody contributes a little. If you are ever going to correct it, everybody has to reduce his expenditures a little.

RECRUITMENT OF OLDER, MORE EXPERIENCED VOLUNTEERS

Last year you mentioned that the Peace Corps would make an effort to recruit older and more experienced personnel for volunteers. Again this year you indicate that you plan to make increased use of experienced Americans. Have you been able to recruit these older, more experienced people?

Mr. BLATCHFORD. I think all the signs show that this will be a successful program, Mr. Chairman.

Mr. PASSMAN. Percentagewise, how many were you able to recruit last year out of your total recruitment program?

Mr. BLATCHFORD. The recruitment just began in January.

Mr. PASSMAN. You discussed it last year. Didn't you say last year you were going to do it?

Mr. BLATCHFORD. Yes, we are going to do it in this fiscal year.

Mr. PASSMAN. In other words, you were giving us a year's notice?

Mr. BLATCHFORD. We gave several months notice.

Mr. PASSMAN. Why didn't you initiate the program immediately if you thought there was good in it?

Mr. BLATCHFORD. Because most of the requests come in during the summer. Seventy-five percent of our programs go overseas in the summer. When we were here in May last year all the summer programs for last year and most of the fall ones were already signed up and on their way in training. So regarding our input in this administration, the big impact comes from January through the program year.

Mr. PASSMAN. How many have you recruited in January?

Mr. BLATCHFORD. I would like to call on our director of recruitment and selection, who can tell you.

Mr. PASSMAN. How many older people have you selected?

Mr. ZELLERS. Back to the first part of your question, Mr. Chairman, last year the applications for people over 30 years of age were 6.3 percent of the total. This year they were 10 percent. In January, in particular, I think this indicates a trend—last year people 30 years of age and over represented 6 percent, this year they represent 13 percent. And in the month of January we have had applications from people over 30 years of age numbering 650.

Mr. PASSMAN. 650?

Mr. ZELLERS. Yes, sir.

Mr. BLATCHFORD. We think this is a significant trend, Mr. Chairman, and we don't think we can turn it around over night. But the big recruiting input comes from February through May and June. I think we could give you much more accurate figures by the end of the fiscal year as to what we were able to do this spring.

TECHNICAL ASSISTANCE FUNCTION OF THE PEACE CORPS

Mr. PASSMAN. I think we have finally reached an understanding of the function of the Peace Corps, which is better than in previous years. The purpose of the people in the Peace Corps, regardless of their age, is to render technical aid whether it is teaching of a subject in a classroom, or out on the farm—it is really in the technical aid field, isn't it?

Mr. BLATCHFORD. Yes, I think there is a certain knowledge and expertise that they try to transfer.

Mr. PASSMAN. I am trying to establish what these people do, and we haven't been very successful in the past because of the evasive answers we received. You cover the waterfront, so far as imparting technical knowledge, such as how to build a better chicken coop or a fence or a tube well or school construction, is that right?

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. It is technical aid, isn't it?

Mr. BLATCHFORD. Some skill, that is right.

Mr. PASSMAN. Imparting a skill is technical assistance, isn't it?

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. So it is a technical aid program, as we think in terms of your assignment?

Mr. BLATCHFORD. Under that definition it would be a very broad based thing.

COOPERATION OF PEACE CORPS WITH AID TECHNICAL ASSISTANCE PROGRAMS

Mr. PASSMAN. That is what I thought it would be. Do you see possibly in the immediate future, if not in the long range—and I hate to think of any agency that could be considered long range—of the Peace Corps being consolidated with the bilateral technical aid programs that we have in the AID Agency?

Mr. BLATCHFORD. We have had a number in this last year, Mr. Chairman, and we have searched for a number of pilot projects in which we could possible cooperate with or share whatever their experience is with whatever the Peace Corps experience is in a certain number of countries, and we hope to start about six pilot projects to see ways in which there could be more good cooperation.

As you know, the Peterson Commission has been studying the AID program and they haven't been able to tell us exactly what the shape and nature of this is.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. I don't know of any subject that has been studied more than the foreign aid program, unless it is possibly the Holy Bible.

Mr. BLATCHFORD. But we did tell the Peterson committee that we would be happy to talk with them about further ways of cooperation or sharing our programs.

Mr. PASSMAN. In other words, you are going to tell them how to count the cabbage or they are going to tell you?

Mr. BLATCHFORD. We are going to tell them we will be available to talk with them.

Mr. PASSMAN. So that is what the Peterson Commission is doing—talking to the bureaucrats who wouldn't let one of these programs die for life or death. Is that where they are getting their information, between friends? I thought they were going to go out in the field and not get their information from the bureaucrats. And I am one, too. Is that really where they are getting their information? If so, I am going to read that report with great interest.

Mr. BLATCHFORD. I assume they are getting their information from a broad background. We are just simply the ones who are working with the people in the field.

Mr. PASSMAN. They are going to the agencies for their information. I have a pretty general idea of the type of report that is coming out, and that is why I want to make a record on it prior to its release.

NEW COUNTRIES ADDED TO FISCAL YEAR 1970 PROGRAM

In the fiscal 1970 House Foreign Assistance Appropriation report, the committee directed the Peace Corps to add no new countries beyond the four then contemplated for the 1970 program year. Are you complying with that directive?

Mr. BLATCHFORD. We are, Mr. Chairman.

Mr. PASSMAN. What countries did you add or do you plan to add in fiscal 1970?

Mr. BLATCHFORD. The country of Mali.

Mr. PASSMAN. Isn't Mali the country that told you to get out?

Mr. BLATCHFORD. No, that is Malawi. In Mali the delegation came to see us last year and asked if we would go into a number of programs in Mali. We will start very small and test that to see, without starting a large program, how it develops.

Mr. PASSMAN. You know from little acorns big trees grow.

Mr. BLATCHFORD. That hasn't been the record in the last year or so though, Mr. Chairman.

Mr. PASSMAN. What counties did you add?

Mr. BLATCHFORD. The Congo (Kinshasa), Mauritius, Malta, and Mali.

Mr. PASSMAN. Guinea?

Mr. BLATCHFORD. Guinea was already in training for the program for fiscal year 1969, but the Guinea program has gone on throughout the year. It has caught on very successfully.

Mr. PASSMAN. These seven people in Chicago who were recently convicted, were any of those returned Peace Corps men?

Mr. BLATCHFORD. Not to my knowledge, Mr. Chairman.

Mr. PASSMAN. I believe that some ex-Peace Corpsmen participated very actively in that show though, didn't they?

Mr. BLATCHFORD. Not to my knowledge.

SECOND PROGRAM IN GUINEA

Mr. PASSMAN. I believe you were in Guinea once and were kicked out and now you are getting back into Guinea. Is that right?

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. What is the attraction there?

Mr. BLATCHFORD. What happened in Guinea was that the French left the country and left a bus system which actually broke down.

Mr. PASSMAN. What kind of a system?

Mr. BLATCHFORD. The bus system. The buses in the capital city of Conakry were breaking down and the Guineans had no way of repairing these and they asked for some skilled people, and we sent a group of auto mechanics, recruited partly with the help of the United Automobile Workers, last fall.

Mr. PASSMAN. That was the second time?

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. How many did you have in the country the first time before you were kicked out?

Mr. WHALEN. 81, Mr. Chairman.

Mr. BLATCHFORD. About 81 in 1966 that were pulled out.

Mr. PASSMAN. What kind of work did they do the first time?

Mr. BLATCHFORD. They were in a wider range of programs back then—agriculture, education, and so forth.

Mr. PASSMAN. Generally technical aid work, is that right?

Mr. BLATCHFORD. Yes. But now they have been successful in getting all the buses repaired, all the buses in the capital city are now functioning, and they are training auto mechanics to take care of the buses.

Mr. PASSMAN. How come you didn't think of that for the first program?

Mr. BLATCHFORD. I think there were some people in the mechanical field, but it wasn't up to us to think of these programs. This is up to the government.

ORIGINATION OF PEACE CORPS PROGRAMS

Mr. PASSMAN. I see. I thought you people thought up these programs and then went out to impart the great knowledge that you possess to those people?

Mr. BLATCHFORD. No, sir.

Mr. PASSMAN. You let them tell you what they want, and you do it?

Mr. BLATCHFORD. They make a request for what they need. I am sure most of them have read about the Peace Corps and know that it is operating in other countries, and they ask our embassy.

Mr. PASSMAN. Some of your advertisements make it sound rather attractive.

Mr. BLATCHFORD. We don't advertise, sir.

Mr. PASSMAN. You don't?

Mr. BLATCHFORD. No, sir; we do not.

Mr. PASSMAN. I have heard some of the silliest programs I have ever heard in my life that you people put on the air.

Mr. BLATCHFORD. Over here. That has to do with public affairs and recruitment. Overseas there is no advertising.

The government there requests us to come.

Mr. LONG. Would the chairman yield?

As you know, I think the chairman has often been right about many aspects of foreign aid. But I have seen quite a few Peace Corps operations in my time, and I must say that I find more good work going on in the Peace Corps, than I have seen anywhere in the foreign aid program.

While I am sure there have been some kooks, I suspect you would find no more troublemakers in the Peace Corps than we have here in Congress.

Mr. PASSMAN. The gentleman has a right to his opinion. You had a daughter in the Peace Corps, did you not?

Mr. LONG. I have never had a daughter in the Peace Corps, Mr. Chairman. I have a son who fought in Vietnam.

Mr. PASSMAN. I want to say this: The former Director did do a selling job on the Members of the Congress to get this agency authorized.

Mr. LONG. I am not going by that. I am going by what I saw in the field.

Mr. PASSMAN. Well, you go on what you like. I am just saying he did a selling job on Members of Congress.

Mr. LONG. I recommend the chairman go out and see some of it.

Mr. PASSMAN. The chairman has seen a lot of it. You go out and spend 2 hours visiting a Peace Corps project just as I do and you leave with a great knowledge of the Peace Corps. You have a right to your opinion.

Mr. LONG. Has the chairman spent weeks out in the field with the Peace Corps?

Mr. PASSMAN. No, but I have spent several hours in several countries reviewing the programs in those countries.

Mr. LONG. That is what I have done. The chairman has formed a bad impression. I have formed a good impression. I am just as entitled to form a good impression as the chairman has to form a bad impression.

Mr. PASSMAN. I concede you that right. Just to change the subject for one minute, I am waiting for my friend as a mathematician to bring me the answer to the problem I gave him on Friday. There was an explosion 800 million years ago and at the second of that explosion, this light started earthward traveling at the rate of 186,000 miles a second.

Mr. LONG. What has that got to do with the Peace Corps, Mr. Chairman?

Mr. PASSMAN. As I said I wanted to change the subject because I am still waiting for the answer.

Mr. LONG. You will get it later on today.

Mr. Passman. These people here have all the answers. They impart technical knowledge and maybe I could possibly join you if you could come up with the answer to the problem. The Doctor hasn't done so, as yet.

Mr. LONG. I will.

Mr. PASSMAN. The doctor thought he laughed me off, but he hasn't. So if any of you gentlemen can tell me how many miles it is from San Francisco from where that explosion took place 800 million years ago, as it started towards earth at 186,000 miles per second, if you can come up with that answer in miles I would be very grateful.

Mr. LONG. Would the chairman like to lay a little bet?

Mr. PASSMAN. Well, you have had the weekend to do it. If you can tell me how many miles it is from where that explosion took place 800 million years ago, and during that entire period that light was traveling at 186,000 miles per second, I would appreciate it. It will be very fascinating to know the answer.

Mr. BLATCHFORD. We don't get into that kind of technical aid, Mr. Chairman.

Mr. PASSMAN. It is a bit technical.

Mr. LONG. This is a little further than they can go in the Peace Corps.

Mr. PASSMAN. This isn't so far fetched as some of the programs you get into in the Peace Corps. I thought it would be a little mental exercise for you.

Mr. BLATCHFORD. I would like to insert in the record some of the results of our Guinea program, though, because it is technical.

Mr. PASSMAN. You can submit it to the committee and we will have a look at it. I am not going to let you fill the record with a lot of imaginary accomplishments.

(The information follows:)

GUINEA BUS PROGRAM

The largest number (about half) are assigned to the municipal bus company whose operations had nearly ground to a halt when the Volunteers arrived, with only two buses running. The Volunteers have taken the fleet of crippled

and disabled buses, $500,000 worth of which was USAID donated, and with Guineans have succeeded in getting 23 buses in operation. In conjunction with the work, the Volunteers have started a school for the bus company mechanics, and now some of the maintenance work is done through systematic classes with Guinean students. It is predicted that by summer, the Conakry bus system will be functioning satisfactorily again.

Mr. PASSMAN. How many buses did they have?

Mr. BLATCHFORD. They had about two dozen buses, I believe.

Mr. PASSMAN. That is 24 buses. How many mechanics did you send to Guinea?

Mr. BLATCHFORD. We sent 22 mechanics.

Mr. PASSMAN. Let's do a little arithmetic here. This is much easier than the other problem. 22 mechanics. How long did those mechanics stay in Guinea?

Mr. BLATCHFORD. They have been there now just a few months. They arrived in August.

Mr. PASSMAN. They have been there for about 6 months?

Mr. BLATCHFORD. Yes.

Mr. PASSMAN. There are 22 mechanics. How much longer will they be there?

Mr. BLATCHFORD. They have a 2-year term. First, the job is to repair all of the buses, the machinery, and then to set up a school to teach, and then they will phase out.

Mr. PASSMAN. There are 22 of them. They will be there for 24 months. That is the equivalent of 44 for 1 year. Is that right?

Mr. WHALEN. It is only 22 at any one period of time.

Mr. PASSMAN. I know, but their tour is for 2 years.

Mr. WHALEN. Yes.

Mr. PASSMAN. For 1 year that would be the equivalent of 44. That is the point, is that right, sir?

Mr. WHALEN. If you condensed it into 1 year.

Mr. PASSMAN. That is what I am doing. What is the average cost per Peace Corpsman per year?

Mr. WHALEN. $9,300.

Mr. PASSMAN. If we multiply $9,300 by 22 mechanics, we get $204,600. How much does one of those buses cost, the kind of bus they use?

Mr. BLATCHFORD. I don't have that right here, but I can furnish it for you.

Mr. PASSMAN. Would you say in the neighborhood of $4,000?

Mr. WHALEN. That is what I get.

Mr. PASSMAN. So you could have, for each one of the old buses that they are rehabilitating, probably could have given them two new buses for the same cost?

Mr. WHALEN. But they wouldn't run.

Mr. BLATCHFORD. They would still break down.

Mr. PASSMAN. When you were out there the first time, they were running buses then. Isn't it the custom for the manufacturer who sells a product to give instructions as to maintenance?

Mr. BLATCHFORD. This is the problem. They have got to teach Guineans how to maintain the bus system, as well as furnish them mechanics for their economy. And they are working on the electrical power system in the country and with the port authority.

Mr. PASSMAN. I am just using your own figures about how many mechanics there were.

Mr. BLATCHFORD. When they got there, they only had two buses functioning in the capital city. Mr. Chairman, this not only is able to lend direct technical assistance to build in their own capacity to carry on and develop their country, but it also brings a great deal of good will for the United States. And this you can't measure in dollars.

Mr. PASSMAN. What do you mean by good will—when you have been run out of a lot of countries. Just this year this little country of Malawi asked you to get out? Now you are apparently having all kinds of problems in Ethiopia. You don't call that good will, do you?

Mr. BLATCHFORD. I think that——

Mr. PASSMAN. Personnel in the Peace Corps is just about the same as in any other agency. You don't have all the bad personnel going to any one country. I am not saying they are all bad.

Mr. BLATCHFORD. There are several hundred programs, of course, functioning at one time.

Mr. PASSMAN. But you know what this country said, and this is one of the underdeveloped countries. The Congress Party asked them to leave within 18 months. The resolution passed by the ruling party stated "All volunteers leave within 18 months." Delegates cited "complaints by our people against the influence which Peace Corps volunteers have over our children and because of their bad conduct and their slovenliness."

What worries me, gentlemen, is that if this is the impression that these volunteers are creating, then we ought to do something about it. That is all I can say. Using your own figures, for various reasons we have been asked to get out of nine countries. I think there are two other countries, but I won't argue the point, and that is 15 percent of the countries that you are in. To me that is enough to cause alarm.

NEW PROGRAMS PROPOSED FOR FISCAL 1971

Are you planning to go into any additional countries in fiscal 1971?

Mr. BLATCHFORD. We have a number of requests pending.

Mr. PASSMAN. I didn't ask you that. I asked if you had any firm plans for taking this agency into any additional countries in fiscal 1971?

Mr. BLATCHFORD. We have not negotiated any agreements as such, but we would like the flexibility to be able to go into about four others.

Mr. PASSMAN. What countries?

Mr. BLATCHFORD. For example, the Maldives Islands off the coast of India which, for 2 or 3 years, have requested us to send volunteers there and the Ambassador came to see me last year. We put it off 6 months because we didn't want to start unless we knew we had a solid program. We would anticipate that the Maldives would be one of the countries we would go into next year.

Mr. PASSMAN. I didn't ask for all that background about what the Ambassador asked or said. I am not interested in what the Ambassador said. I am only interested in knowing what countries you presently are considering going into. You named one of the four. Name the other three.

Mr. BLATCHFORD. We have current requests from Equatorial Guinea and from two island groups in the South Pacific——

Mr. PASSMAN. What island groups?

Mr. BLATCHFORD. New Caledonia and the Solomon Island.

Mr. PASSMAN. What nation are these islands normally a part of, what sovereign nation?

Mr. BLATCHFORD. New Caledonia is a trustee of France and the Solomons of Great Britain.

Mr. PASSMAN. These island are under the control of the United Kingdom and France, are they not?

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. How many other possessions or islands of sovereign countries do you plan to go into?

Mr. BLATCHFORD. None that I know of.

Mr. PASSMAN. Do you have this outfit operating in any other territories or possessions of sovereign countries at this time?

Mr. BLATCHFORD. Volunteers are presently serving in the trust territory of Micronesia, which is administered by our Government. They are also working in the Associated States, which is a colony of Great Britain and in British Honduras, which is also a colony of Great Britain and which expects to be independent in the immediate future.

Mr. PASSMAN. I just don't know the purpose of you taking this outfit into possessions of other sovereign nations who you know are waxing fat in wealth. They may have a little upset at this time, but it appears that both of these nations are returning to a very prosperous era.

NUMBER OF TRAINEES AND VOLUNTEERS OVERSEAS IN FISCAL 1971

Would you please insert in the record showing the number of volunteers overseas and the number of trainees by country and region as projected for fiscal 1970 and fiscal 1971 similar to the table which appeared in our committee report last year?

Mr. BLATCHFORD. Yes, Mr. Chairman, we will do that.

(The information follows:)

PEACE CORPS VOLUNTEERS AND TRAINEES ON BOARD

	Estimated June 30, 1970			Estimated June 30, 1971		
	Volunteers overseas	Trainees	Total	Volunteers overseas	Trainees	Total
All regions	7,825	2,425	10,250	7,640	2,305	9,945
Africa	2,355	675	3,030	1,950	760	2,710
Botswana	64	4	68	60	60	120
Cameroon	64	12	76	70	10	80
Chad	55	37	92	50	----	50
Congo	----	----	----	20	----	20
Dahomey	51	----	51	55	10	65
Ethiopia	292	9	301	100	120	220
Gambia	17	48	65	50	25	75
Ghana	198	169	367	190	140	330
Guinea	23	----	23	20	25	45
Ivory Coast	102	47	149	100	30	130
Kenya	306	----	306	260	----	260
Lesotho	61	----	61	55	45	100
Liberia	276	26	302	250	30	280
Malawi	129	----	129	----	----	----
Mali	----	----	----	20	----	20
Mauritius	----	20	20	20	----	20
Niger	44	38	82	60	5	65
Nigeria	61	----	61	10	----	10
Senegal	68	83	151	80	45	125
Sierra Leone	271	93	364	210	150	360
Swaziland	50	5	55	50	----	50
Togo	84	37	121	70	15	85
Uganda	88	38	126	100	----	100
Upper Volta	51	9	60	50	50	100
East Asia and Pacific	1,595	720	2,315	1,850	505	2,355
Fiji	149	16	165	160	25	185
Korea	179	111	290	295	25	320
Malaysia	417	35	452	450	130	580
Micronesia	200	262	462	300	200	500
Philippines	309	216	525	335	100	435
Thailand	204	80	284	180	25	205
Tonga	68	----	68	60	----	60
Western Samoa	69	----	69	70	----	70
Latin America	2,580	735	3,315	2,340	720	3,060
Bolivia	184	----	184	145	50	195
Brazil	410	97	507	360	60	420
British Honduras	26	42	68	35	10	45
Chile	150	----	150	100	100	200
Colombia	290	----	290	155	75	230
Costa Rica	88	----	88	65	----	65
Dominican Republic	63	38	101	45	----	45
Eastern Caribbean	155	118	273	175	70	245
Ecuador	162	----	162	160	70	230
El Salvador	86	7	93	45	10	55
Guatemala	84	----	84	75	----	75
Guyana	58	----	58	50	40	90
Honduras	100	95	195	135	30	165
Jamaica	146	141	287	155	130	285
Nicaragua	51	25	76	75	----	75
Panama	100	----	100	105	40	145
Paraguay	71	21	92	80	----	80
Peru	185	44	229	185	10	195
Uruguay	21	----	21	20	----	20
Venezuela	150	107	257	175	25	200
Nanesa	1,295	295	1,590	1,500	320	1,820
Afghanistan	123	41	164	130	20	150
Ceylon	26	----	26	60	----	60
India	500	38	538	595	115	710
Iran	168	70	238	170	55	225
Malta	----	----	----	10	----	10
Morocco	124	20	144	160	----	160
Nepal	159	66	225	135	50	185
Tunisia	135	60	195	115	----	115
Turkey	60	----	60	125	80	205

TERMINATION DATES OF PROJECTS

Mr. PASSMAN. Mr. Director, you stated last year that a project which does not have an end in sight, which will not be taken over by local people in a few years time, should not be started. Is that correct?

Mr. BLATCHFORD. Yes.

Mr. PASSMAN. I assume that is your present position?

Mr. BLATCHFORD. That is right, Mr. Chairman.

Mr. PASSMAN. Thank you.

Could you determine the number and type of projects that have been terminated in the past year?

Mr. BLATCHFORD. Would you like us to insert it in the record?

Mr. PASSMAN. Surely.

(The information follows:)

Projects which have accomplished their objectives and have, therefore, been phased out in the past year include: Korea High School English teacher, Malaysia preservice teacher training, industrial arts, and secondary arts teaching; Malaysia/Sarawak 4-H program; Thailand physical education; Liberia primary education and Ethiopia education; Brazil school lunch programs.

Mr. PASSMAN. When new projects are started, do you project a termination date at the time of the start?

Mr. BLATCHFORD. That is what we are doing now, Mr. Chairman.

Mr. PASSMAN. Is that a new procedure?

Mr. BLATCHFORD. We are working it into our program planning process.

Mr. PASSMAN. How about past projects?

Mr. BLATCHFORD. We are also reviewing the hundreds of programs in the past so that when they come up for renewal we can set goals on them in ways in which the local government can take them over in a set amount of time.

Mr. PASSMAN. I think I set the record straight at the beginning of the hearing, and I know very well that you have some wonderful dedicated people in the Peace Corps. But for various reasons, you have now been asked to get out of either nine or ten countries, haven't you, for various reasons?

Mr. BLATCHFORD. That is right. But at the same time we have been asked to increase the programs in a number of other countries.

Mr. PASSMAN. I know that you have. But I am trying to make a bona fide case for the American taxpayer. You have been asked to get out of 15 percent of the total number of countries that you are now in. Some of those countries used some pretty strong language in doing so. I don't appreciate that because I am an American, just as you are. But when those people say we are corrupting the morals of their children, that is not a compliment to the United States and that statement hits every person on the face of the earth, wouldn't you think?

Mr. BLATCHFORD. Yes; I think also that one problem is that the newspapers tend to report some sensational statement that a particular official will make rather than the stories of the good work our volunteers are doing.

Mr. PASSMAN. You usually pull out the volunteers when you are requested to do so, don't you?

Mr. BLATCHFORD. Certainly.

Mr. PASSMAN. So I don't care how you say it—they said get out—whether in diplomatic language or in the Passman style. They said get out. It would appear to me when you have had 15 percent of the total number of countries that you are now in ask you to leave, that in itself is sufficient evidence that we ought to abolish this program and put you fine youngsters to work in some productive field. It is quite an indictment, and I don't like it, and I don't believe that you do either.

Would you provide a list of projects, by countries, which are estimated to be terminated in fiscal 1971.

Mr. BLATCHFORD. Yes, Mr. Chairman.

(The information follows:)

Projects which are expected to terminate with the service of volunteers presently in service or with the service of volunteers who will enter training before September 1970 include: Malaysia in-service teacher training, tuberculosis control; Sawarak/Malaysia secondary arts education, primary teacher training; Thailand malaria control; Chile reforestation; Bolivia tuberculosis control; Colombia rural community development; Venezuela classroom physical education; Bolivia sheep shearing; all classroom teaching in India, poultry extension in India/Punjab, agricultural extension in Ceylon; smallpox vaccination in Afghanistan; secondary education in Turkey. Projects which have been substantially reduced and will probably phase out over the next three or four years include: Micronesia primary education; Sierra Leone, primary and secondary education; Kenya land settlement.

It should be noted that the achievement of project objectives may lead to the phase out of Peace Corps activity in that field or may lead to host country requests for volunteers in a different but related activity. Volunteers in Bolivia whose principal job has been the introduction of mechanical shears to thousands of Bolivian farmers are being phased out.

Volunteers with animal husbandry experience are now being requested to assist in the expansion and management of sheep herds whose economic value has been increased by the improved shearing practices. Similarly, the Chilean Government is phasing out reforestation volunteers but may continue to request volunteers to assist in wood technology and utilization, forest ecology, and forest fire control.

REVERSE PEACE CORPS

Mr. PASSMAN. Last year we discussed the program which was administered by the State Department called the Volunteers to America or the so-called Reverse Peace Corps. What is the present status of this program?

Mr. BLATCHFORD. This program is being phased out, Mr. Chairman.

Mr. PASSMAN. I didn't know it was ever phased in.

Mr. BLATCHFORD. Yes. It was operated for 2 or 3 years. Last year we had asked that——

Mr. PASSMAN. It was quite a low key operation though, is that right?

Mr. BLATCHFORD. Yes, sir. There were very few. There are 20 members left that are not funded with Peace Corps funds. They were administered by us for the remainder of the year until they finish in August 1970, and then the program will end.

Mr. PASSMAN. This reminds me of some figures I just had verified. When I look at these different programs it reminds me of the statement that a government is a spender, not an earner. For every 12 months that the average American works, 6 months of his wages now goes for taxes.

Mr. LONG. Will the Chairman yield?

Mr. PASSMAN. Surely.

Mr. LONG. The Chairman said a little while ago that he would defer to my judgment on matters of the Peace Corps if I would tell him how many miles it was to that star that was burned out 800 million years ago and has been traveling ever since. I have it all worked out.

Mr. PASSMAN. How many miles?

Mr. LONG. The answer is 4 septillion, 692 sextillion, 556 quintillion, 800 quadrillion miles, and they are worked out in zeros.

Mr. PASSMAN. That is exactly the answer I got. I want to commend the gentleman. My conclusions are identically the same. At some subsequent date, I may want to know what time of the day it exploded. But I won't get into that question now.

Mr. LONG. There it is, all worked out in zeros. I want the Chairman to officially concede that my judgment on the Peace Corps is sound.

Mr. PASSMAN. I can only say this: The gentleman from Maryland is a very nice fellow in some respects. I don't think he knows any more about the Peace Corps than I do about surgery, and I couldn't even pick a splinter out of my foot. I always yield to the liberal members of this committee to express themselves the way they want to. Did you ever hear the description of a liberal, Mr. Director?

Mr. BLATCHFORD. What is that?

Mr. PASSMAN. A liberal is an individual with high pressure feeling, low pressure thinking, and a constant urge to give away that which belongs to somebody else.

Mr. LONG. It is a pretty good description. If the gentleman you are referring to is me, I have been a little more economical on foreign aid funds than the chairman has.

Mr. PASSMAN. That is the opinion of a very lovable, very fine gentleman.

Are all of the countries in which we now have Peace Corps volunteers located independent and sovereign nations?

Mr. BLATCHFORD. Except for the Trust Territory of Micronesia.

Mr. PASSMAN. How about the Bahamas?

Mr. BLATCHFORD. The Peace Corps is not in the Bahamas.

Mr. PASSMAN. You were planning to go in there last year, I believe?

Mr. BLATCHFORD. We have listed it as a possible program. We have negotiated with them and discussed it, but we have decided not to go ahead with that program.

USE OF EXCESS FOREIGN CURRENCIES

Mr. PASSMAN. As we discussed last year, section 17 of the Peace Corps Act provides that:

> Whenever possible, the expenditures incurred in carrying out functions under this Act shall be paid for in such currency of the country or area where the expenses are incurred or may be available to the United States.

We had a long discussion on whether the Peace Corps had complied with this section of the law. Have you utilized excess foreign currencies whenever possible during the past year?

Mr. BLATCHFORD. Yes; we have, Mr. Chairman.

Mr. PASSMAN. How much have you utilized?

Mr. WHALEN. For the past year, Mr. Chairman, in 1969, $4.5 million.

Mr. PASSMAN. Would you list which nations for the record?

Mr. WHALEN. Yes, sir.

(The information follows:)

Host countries in which excess currencies were utilized in fiscal 1969 are:

Ceylon	$91,000
India	2,514,000
Tunisia	386,000
Morocco	305,000
Bolivia [1]	712,000
Ghana [1]	498,000
Total, fiscal 1969	4,506,000

[1] Near excess currency countries.

Mr. PASSMAN. Have you used excess foreign currencies in countries which were declared in excess this past year?

Mr. WHALEN. Yes, we have. We continually use it when a country has been declared excess or near excess.

VOLUNTEER DEFERMENT FROM MILITARY DRAFT

Mr. PASSMAN. Are Peace Corpsmen subject to immediate draft, or are they eligible for deferment?

Mr. BLATCHFORD. Peace Corps volunteers are deferred.

Mr. PASSMAN. They are deferred?

Mr. BLATCHFORD. During their time of service.

Mr. PASSMAN. I understand.

Mr. BLATCHFORD. But once their time of service is finished——

Mr. PASSMAN. That is understood. I would hope you people haven't gone so far as to believe you would have the right to defer them after their service. They are deferred?

Mr. BLATCHFORD. They are deferred.

DROPOUT RATE OF TRAINEES

Mr. PASSMAN. What is the dropout rate during training at the Peace Corps Training Centers in Puerto Rico, California, and the Virgin Islands?

Mr. WHALEN. The rate at our training centers is about 23 percent.

Mr. PASSMAN. 23 percent?

Mr. WHALEN. Yes, sir.

Mr. PASSMAN. That is an average for all three?

Mr. WHALEN. That is right.

Mr. PASSMAN. Your experience with older people is too new to furnish an estimate of what the dropout rate will be?

EFFORTS TO REDUCE DROPOUT RATE

Mr. BLATCHFORD. That is right, it is, Mr. Chairman. However, I would like to explain to the committee what we are doing to cut down the attrition or dropout rate, both in training and overseas. We are initiating something new in the Peace Corps called a preinvitational staging. This is a time in which all potential applicants will be interviewed personnally, told what Peace Corps service is, thus giving them a chance to be more realistic about the Peace Corps, and at the same time we get a chance to look at them before they begin the training period. So if we don't feel they qualify, they never get to training.

Mr. PASSMAN. I thought you people practiced that in the beginning. We were told this was the most infallible outfit created by man.

Mr. BLATCHFORD. There is a 12-week course in which the screening is very intense. That is during the training, before they are put into their assignment. But we think that we can do better by interviewing them personally at the very beginning.

Mr. PASSMAN. I thought you interviewed them and did everything else to them at the beginning. I didn't know that this was a new procedure. I thought that this was one of the closest screened, purified outfits in the world.

Mr. BLATCHFORD. We are moving the screening process up into the initial application stage, which will we think keep the quality of the training up but at the same time take the tension off of the volunteers during training and we think we will actually have less attrition during training.

PEACE CORPS POLICY AS TO FREEDOM OF EXPRESSION

Mr. PASSMAN. Let's be completely realistic. Isn't our goal in life, as we think of foreign affairs and other nations, to try to win over the minds of men? Isn't that one of our main goals, to win the minds of men?

Mr. BLATCHFORD. I wouldn't put it that way, sir. I would say our main goal in the Peace Corps is to provide the countries to develop on their own, not win them necessarily to our point of view.

Mr. PASSMAN. What are you going to say when I tell you that the former President, your predecessors, about eight A.I.D. directors, and two or three Secretaries of State stated our goal was to win the minds of men? Now, if that isn't the purpose of much of our foreign policy, what would be our purpose? We think we are right. I am glad to be an American. Aren't you?

Mr. BLATCHFORD. Very much so.

Mr. PASSMAN. Isn't this the greatest form of Government ever devised by the mind of man?

Mr. BLATCHFORD. Yes; I think it is.

Mr. PASSMAN. Isn't our Constitution the greatest political document ever committed to writing, as it applies to freedom of man to have a competitive enterprise system in which to make money and compete for jobs without any limitations?

Mr. BLATCHFORD. Yes, sir.

Mr. PASSMAN. What is wrong with imparting that type of knowledge to these developing countries? Isn't that our goal? Aren't our ambassadors, as representatives of this government, espousing our foreign policy as the correct one?

Mr. BLATCHFORD. I am sure that our State Department and our embassies feel that responsibility, and are carrying it out.

Mr. PASSMAN. We have had ambassadors and ministers and their staffs abroad from the adoption of the Constitution, have we not, 180 years ago, to administer that policy.

Mr. BLATCHFORD. Yes.

Mr. PASSMAN. I don't see how any person could say that an exception to that policy should be made for the Peace Corpsmen. You know, and I know, that some of the volunteers are rather vocal in expressing

their opposition to some of the policies of this country. I take the position that when I go abroad that I am a representative of the United States of America, and I am going to defend my Government and its policies. I have never heard of any group representing any nation on the face of the earth, including the United States that was given a right to do or to say whatever they pleased when they went abroad.

I was in hopes that a new Director like you, would see this as I do—that if you are an American and you know that we are right, and history has proven that we are right, then you defend our form of Government. Because if the Peace Corps goes to these developing countries and fattens up these people and they still think the other way then you haven't made enough of an impression to reverse their opinion, and you are only making them stronger enemies if they should ever turn against us.

I just can't comprehend why one group—the only group on the face of the earth as far as I know—representing my country is priviledged to set themselves apart and feel free to criticize our foreign policy.

Mr. BLATCHFORD. Mr. Chairman, you know Congressmen traveling overseas don't always feel that they have to defend the foreign policy issues of the United States.

Mr. PASSMAN. Then they shouldn't be permitted to go overseas if they can't defend our foreign policy. But two wrongs will not add up to a right.

Mr. LONG. Is the chairman going to be the one who stops them from going?

Mr. PASSMAN. Pardon?

Mr. LONG. I don't want the chairman to tell me what I am going to say when I go abroad.

Mr. PASSMAN. I didn't say I wanted to. You ought to do just like I do, and that is, defend the policy of our country. If you want to take exception to that statement, do so.

Mr. LONG. I happen to feel our country is so darn right that I don't have to go around defending it.

Mr. PASSMAN. I say that if you are going to turn the Peace Corpsmen loose to freely criticize our foreign policy let's turn loose our ambassadors and everybody on their staff and let them do or say whatever they want to. There is no use to send this group of youngsters abroad and permit them to be so vocal in their criticism of our country, and you know they are, and I don't like it.

Mr. LONG. The chairman doesn't sound to me as if he is a great believer in freedom of speech.

Mr. PASSMAN. I am for freedom of speech as it would apply——

Mr. LONG. When it agrees with you.

Mr. PASSMAN. As it would apply to principles. I don't believe a bunch of long haired beatniks and hippies should be permitted to go abroad at Government expense, and then turn around and criticize the Government that sent them abroad to do a job. A lot of them are ducking the draft.

I haven't been angry during my 17 years as a member of this committee, but this makes me angry for anybody to argue that these youngsters who are still wet behind the ears can go abroad and be vocal in their criticism of our Government's foreign policies, possibly within hearing distance of where there brothers or cousins are being

killed in Vietnam fighting for what we say is our foreign policy and what is right.

If we are going to permit the Peace Corpsmen to take a different view, let's conclude the war this afternoon and bring them home.

FOREIGN AFFAIRS COMMITTEE REPORT STATEMENT ON FREEDOM OF SPEECH

Last year the House Foreign Affairs Committee report on the Peace Corps authorization bill stated:

> This special status of the Peace Corps and its independence have been granted to enable the Peace Corps to render a special service. Such service does not include promoting the U.S. position on any issue; neither, however, should it permit active opposition to U.S. policies.

But it is, in many instances, opposition to U.S. policies. I would say this, you can't disagree with all Americans, and we should stick together. If our policy is wrong, let's correct it at the ballot box. And if it is not corrected at the ballot box I know of no other way to correct it.

When I go abroad I brag on my country and I brag on my President. I brag on our leaders and our policies until I get off the plane back in America. I don't know how to do it any other way. If there is any other way, I don't want to know anything about it, because that is how I feel about my country, and I am going to defend it.

Have you had any major incidents this past year, where volunteers have taken an active role in condemning U.S. policies?

Mr. BLATCHFORD. We have had two or three instances.

Mr. PASSMAN. Did you bring them home?

Mr. BLATCHFORD. In cases where the volunteers did not publicly demonstrate but, in agreement with our State Deartment, and our ambassadors, submitted a petition or discussed their dissent from policy positions at the embassy, what we would consider, quietly, then we channeled that kind of dissent and that kind of free expression and allowed it.

Mr. PASSMAN. Allowed it?

Mr. BLATCHFORD. Permitted it.

Mr. PASSMAN. Why did you ever let them go abroad with that kind of temperament?

Mr. BLATCHFORD. Because neither we nor the Congress has ever wanted to screen the political views or foreign policy views of volunteers overseas.

Mr. PASSMAN. You do with an ambassador, do you not, and his staff? Aren't they abroad representing the United States and supporting our policy?

Mr. BLATCHFORD. But the Peace Corps——

Mr. PASSMAN. I am not asking you that. I am asking you a question about or ambassadors.

Mr. BLATCHFORD. That is true.

Mr. PASSMAN. The Ambassador ranks a Peace Corps man doesn't he?

Mr. BLATCHFORD. He outranks them, did you say?

Mr. PASSMAN. I asked if the Ambassador ranks a Peace Corps man. If such a policy is good enough for the Ambassador and his staff, why shouldn't it be good enough for everybody else?

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

Mr. PASSMAN. You can have all day after I get an answer to my question.

Mr. LONG. As the chairman knows, my son fought in Vietnam. He was also the only son of any Congressman of the 535 Members in either body who was wounded in Vietnam. So I think I have a right to say a word on this.

Mr. PASSMAN. You can talk all day when the interrogation gets to you.

Mr. LONG. The fact that a Peace Corpsman goes overseas doesn't stop him from being a United States citizen. I think he has at all times the right to express his views on what the policies of this country ought to be, as any other United States citizen.

Mr. PASSMAN. Let me ask you this, Doctor. Do the military personnel have such a right while they are in uniform?

Mr. LONG. No, because it is a military organization. But this is the first time I heard the Peace Corps was.

Mr. PASSMAN. I don't care what the gentleman wants to believe. I am not here to convince you of anything. I am here to say what I think is true.

Mr. LONG. You say what you think is true but I will say what I think is true.

Mr. PASSMAN. When I yield to you you can ask your questions and make whatever statements you want to.

Mr. LONG. I have heard this a hundred times and I am sick and tired of hearing about it. You made your position clear. Let's get on to something else.

Mr. PASSMAN. You are not going to stop me from asking these questions, make no mistake about that. You are not going to put words in my mouth. If you have a line of questioning, you can pursue it when it gets around to you.

Did you bring these youngsters home when it became known?

Mr. BLATCHFORD. Those that I have just referred to, no, because we feel there is a right of freedom of speech and dissent channeled within our own embassy, discussing it with me or the ambassador, and so forth.

Mr. PASSMAN. If this is good for the Peace Corpsmen, would it not be good also for the ambassadors and their staffs?

Mr. BLATCHFORD. I don't agree, because I think the Peace Corpsman goes overseas with a different mission. He is not politically screened. He is not told or screened or given any instructions as to what he has to say and what he can't say. When there is any demonstration, which is a public protest, which dramatically injects the Peace Corpsman into an issue they shouldn't be in, in some public way, then this is not allowed.

We did have a case in Turkey in which three volunteers were more interested in protesting and getting involved than they were in doing their jobs, and consequently they were terminated.

Mr. PASSMAN. If this Peace Corpsman goes overseas with some ideology or impression about some of the foreign governments possibly being better than ours, then in all probability that is going to come out, isn't it, if they are given the right to express themselves as individuals?

Mr. BLATCHFORD. It may or may not.

Mr. PASSMAN. Well, if they do have that impression, do you think they should be permitted to go overseas as a representative of the United States?

Mr. BLATCHFORD. I don't think anyone who is going overseas to be a political activist should be in the Peace Corps, we will screen them out and see that they are not in the Peace Corps, because that is not our purpose.

Mr. PASSMAN. Let's take the trouble we are having in the U.S. today. It is perfectly obvious we have no disciplinarian policy in this country whatsoever, and we are losing control almost in every city, town, and hamlet. What is the position of the Peace Corps on this when the volunteers are asked? They are bound to be asked those questions, because the disturbance in America is making headlines overseas. Do they attempt to defend our system or not?

Mr. BLATCHFORD. The Peace Corps doesn't take a position on political or foreign policy issues. It has no position.

Mr. PASSMAN. If they are Americans, they are going to take a position, and you know that they are.

Mr. BLATCHFORD. There are about 10,000 volunteers overseas. I am sure they will take as wide and as different viewpoints about things as any other cross-section of America.

Mr. PASSMAN. If you can't ferret them out in this country, I doubt if you could when they get into the Peace Corps. They are going to express themselves, and I think they should have to adhere to the same rules and regulations that our military personnel have to adhere to, as well as our foreign service personnel.

How many Peace Corpsmen do you have overseas?

Mr. BLATCHFORD. We have about 10,000.

Mr. PASSMAN. And I think we have over a million other representatives of the United States overseas, don't we?

Mr. WHALEN. Including the armed forces?

Mr. PASSMAN. Yes. I believe everyone of them has to support our foreign policies, is that correct?

Mr. BLATCHFORD. I don't believe so. I mention the case of Congressmen and so forth.

Mr. PASSMAN. Congressmen are not stationed overseas. Also, you know very well a man in uniform criticizes our foreign policy or our presence in Vietnam, he is in trouble, isn't he?

Mr. BLATCHFORD. I don't know exactly what military policy is.

Mr. PASSMAN. But these people, the 10,000 volunteers overseas, are the exception of all the millions of Americans that we have overseas—these people fall into a different category so far as requirements of adhering to our foreign policy, don't they?

Mr. BLATCHFORD. They certainly do fit into a different category than our embassy personnel.

Mr. PASSMAN. Then why don't you recommend that this procedure be improved? I am going to take this to the President, because I don't think that he knows this. This is one of the most ridiculous things that we have ever permitted to grow up in our Government. And it isn't right, gentlemen, to have you intelligent people appear before this committee and condone this exception frightens me.

STATEMENT OF STATE DEPARTMENT AS TO STATUS OF VOLUNTEERS

Mr. BLATCHFORD. I quote from a telegram sent to all overseas missions by the Secretary of State saying, "Volunteers are not to be regarded as official members of the mission."

Mr. PASSMAN. What Secretary of State?

Mr. BLATCHFORD. Secretary of State Rogers. He said that he has talked with President Nixon and that they have said that the Peace Corps continues to remain strictly nonpolitical.

Mr. PASSMAN. But Secretary Rogers doesn't know any more about it than I do. He is busy in other fields and the chances are you people wasted his time getting him to approve this telegram that you people concocted. That would be my guess.

As far as I am concerned, one of the reasons I want to stay in Congress, is that my goal is going to be to see if I can't reason with people and have the Peace Corps under the same general policy as the other millions of Americans that are representing our Goverment overseas.

There is no reason why some 10,000 youngsters—you know some of them are mixed up and are ducking the draft—should be permitted to go overseas and to express themselves differently than our other personnel.

RECRUITMENT OF MARRIED COUPLES

It is indicated that the tendency is towards older people with families. Is that still the philosophy of the Peace Corps, that married couples may be more desirable than individuals?

Mr. BLATCHFORD. In order to get this experience and skill that the host countries are asking for, it is reasonable to expect that many of these people will have families.

Mr. PASSMAN. I asked you if that is the present policy, to try to send married couples overseas than single volunteers?

Mr. BLATCHFORD. It is not policy to send a married couple.

Mr. PASSMAN. Didn't you say last year that was true?

Mr. BLATCHFORD. I said the policy was to get people with more skills and therefore we would be more flexible in allowing them to take their family if we found that skill. Consequently more married people will be going overseas.

Mr. PASSMAN. Let's see what you said last year. You stated: "The need for trained people is so great that all those who are needed because of their skills and experience and who meet the rigid criteria, should be called on to serve, despite the fact that they may be married and have children. Given the need, I think we should ease restrictions and work out ways for them to serve."

You mentioned the married volunteer. Do you have any preconceived ideas about whether or not they would render better service than the single people?

Mr. BLATCHFORD. I think they will do very well, because they have greater skill and experience and stability. There is a certain stability that a family has that a single person does not have. We think that they will work out very well. We hope to send 200 families overseas during this calendar year.

Mr. PASSMAN. Doesn't common sense tell you that a man and wife, if they can be together overseas, could be happier than some individual

who went overseas alone? Would it not just follow that a man and his wife would be a better combination than a single man?

Mr. BLATCHFORD. I think in many cases it would be.

Mr. PASSMAN. OK. That is all I am trying to find out, if you had any ideas on what it meant for a man to have his wife with him. And it naturally follows that they would, in all probability, be older than the current volunteers.

Mr. BLATCHFORD. Yes.

Mr. PASSMAN. And they would be married.

Mr. BLATCHFORD. Yes, that is right, particularly those who are from smaller towns or rural areas which have farm backgrounds. Often they get married at an earlier age and we think that they should be allowed to serve in the Peace Corps as well.

DECREASE IN STRENGTH AND INCREASE IN BUDGET

Mr. PASSMAN. I notice in the justifications that you plan to reduce the number of volunteers and trainees from 10,500 in 1970 to 10,000 in 1971. With this decrease in strength, why are you requesting an increase in funds?

Mr. WHALEN. Mr. Chairman, we in fact had a decrease in the budget because of the lower numbers of volunteers we would be supporting. That is reflected I believe on page 10 of our presentation which shows a reduction of $1.1 million.

The reason the budget is up overall is because of an offsetting increase to change our training input from 6,500 planned this year to 7,000 in 1971. That increase more than offsets the decrease due to the decline in strength.

Mr. PASSMAN. That is a pretty statement, but it doesn't answer my question, unless you are telling us at this time that you are going to have substantial unobligated funds.

Mr. WHALEN. No, sir, not at all.

Mr. PASSMAN. But you are decreasing the strength and increasing the request for money?

Mr. WHALEN. We are increasing our training input for 1971 but at the same time there are fewer volunteers overseas in 1971. One generates an increase, the other a decrease. There is a net overall change of $300,000 in the budget.

Mr. PASSMAN. Is it an increase of $300,000 or $350,000?

Mr. WHALEN. It is $350,000.

Mr. BLATCHFORD. We are requesting, of course, less.

Mr. PASSMAN. Gentlemen, there is nothing personal about this, but this outfit has done a selling job on the Congress I don't think if you spent the rest of this year, you could point out where, on the main, you have done one bit of good. Any time you are run out of nine or 10 countries, and some of those countries say it is because you are corrupting the morals of their children, that is quite an indictment. This agency can't be holier than all the others. I believe we are on the minus side. I am sure you people believe in this outfit, but I don't. I think it is the worst agency in Government, and I am not dealing in personalities. I am talking about it as it is and what it is.

You have a bunch of youngsters with a lot of ideas—no doubt some of them are good—but this one agency should be abolished. I don't know

which one should go first—the War on Poverty or the Peace Corps. Maybe they should go out together. That is the way I feel. I wish there were some way I could get rid of this outfit, because I don't believe in it.

I think that Sargent Shriver did a selling job on Members of the Congress—first with the name. That was misleading, completely misleading to give it a name like this. That is one of the things that has turned the ball for you. Peace Corps—it has no more relationship to peace than I have to the practice of surgery. I think you are getting us in trouble in a lot of places, but this agency has no more relationship to peace than I have with the President of France.

BUDGET BASED ON ANNUAL AVERAGE NUMBER OF VOLUNTEERS

Last year you indicated that end-of-year strengths would be reduced by 400 trainees and volunteers in 1970, and you stated that this reduction would save $4,300,000.

This year you project a reduction of 500 volunteers in 1971, but you estimate only $1,000,100 will be saved. How could you save more last year when the estimated personnel reduction was not as drastic as that projected for this year?

Mr. WHALEN. Mr. Chairman, the figures you are looking at there are the end-of-year strength. That is, they represent our strength at one particular point in time. In order to really compute the dollar requirements for the different budgets, we must use the average strength of volunteers over the course of the fiscal year.

For example, I will give you the average volunteer strengths. In fiscal 1969 it was roughly 10,200. In fiscal year 1970, and I am dealing with average strength, Mr. Chairman——

Mr. PASSMAN. I know that, but if there is a reduction in strength, there ought to be a reduction in dollars.

Mr. WHALEN. The dollar reduction we have taken is exactly consistent with the reduction in volunteer strength.

Mr. PASSMAN. You don't take any. The budget is higher than last year's appropriation. What you plan to do is to have a larger program in some subsequent years. You are laying the foundation now, are you not?

Mr. WHALEN. Mr. Chairman, this is the lowest budget request we have submitted since 1963.

Mr. PASSMAN. What did you submit last year—$98,450,000, did you not?

Mr. BLATCHFORD. $101.1 million.

Mr. PASSMAN. Did you follow that Shriver system, of amending the budget just before you were to testify and revising it downward? Did you do that last year?

Mr. WHALEN. We amended the budget before the beginning of last year's hearings.

Mr. PASSMAN. That is why I don't trust a thing in the world you do. Just about every year, unless it was last year, under Mr. Shriver and your predecessor would have an inflated request. But just before they were getting ready to come to the Hill to testify they would amend the budget downward. That is a trick as old as any in the Ringling Brothers Circus.

Mr. WHALEN. We did this though, Mr. Chairman——

Mr. PASSMAN. I know what you are doing. You are trying to fool Members of Congress.

Mr. BLATCHFORD. We are not doing that, sir.

Mr. PASSMAN. Why is it other agencies don't do that? Why do you people have so many jokers in the deck?

Mr. BLATCHFORD. We didn't do that last year, Mr. Chairman.

Mr. PASSMAN. I said with the exception of last year. You know, year after year, and year in and year out Mr. Shriver, and your predecessors, would send down an inflated budget and just about the time we were ready to hold hearings on those inflated requests, they would revise them downward.

Mr. WHALEN. Based on the best estimates——

Mr. PASSMAN. You are either trying to fool the Congress—and you may have succeeded—or else you didn't know what you needed to start with.

That was quite a famous trick with Mr. Shriver. I guess we will have to call him Governor Shriver the next time we see him.

Mr. WHALEN. Each year's figures are submitted with the best information available at that time, Mr. Chairman.

Mr. PASSMAN. I wouldn't doubt that. I second that statement, "best available," because you don't know what you need.

Mr. WHALEN. Would you prefer we not amend it?

AVERAGE AGE OF THE VOLUNTEERS

Mr. PASSMAN. What is the average age of the Peace Corps volunteers at the present time?

Mr. WHALEN. It is 24.1 years.

Mr. PASSMAN. 24.1. Then most of that would be well within the draft age, would they not?

Mr. BLATCHFORD. Most of them are; yes.

Mr. PASSMAN. What is the draft age, the maximum?

Mr. BLATCHFORD. Twenty-six, unless you are deferred.

Mr. PASSMAN. This is the average. What percentage of people would be over 26 if the average is 24.1?

Mr. WHALEN. I don't have that, Mr. Chairman.

Mr. PASSMAN. But if the average is 24?

Mr. BLATCHFORD. The average is about 24.

Mr. PASSMAN. Now I know how we can abolish this outfit—conclude the Vietnam war. Let's just all work in that direction. It would serve two good purposes.

Would you place in the record a table showing the number of volunteers in each age bracket, using a 5-year interval, such as 20 to 25? Would you have any under 20? What is the lowest age?

Mr. BLATCHFORD. The lowest age is 18. Most are 20 and 21.

Mr. PASSMAN. Let's put a table showing all 18 to 20, 20 to 22, 22 to 24, 25 to 26, and those above 26. Can you do that?

Mr. BLATCHFORD. Do you want to include the single women?

Mr. PASSMAN. Surely. And I want the married ones too, because the married men are subject to the draft, aren't they?

(The information follows:)

PEACE CORPS VOLUNTEERS AND TRAINEES, BY SEX AND AGE, AS OF JUNE 30, 1969

	Total	Age				
		18 to 20	21 to 22	23 to 24	25 to 26	Above 26
Male	8,114	119	2,161	3,676	1,686	472
Female	4,017	80	1,224	1,758	583	372
Total	12,131	199	3,385	5,434	2,269	844
Percent distribution	100.0	1.6	27.9	44.8	18.7	7.0

Mr. BLATCHFORD. Yes. But single women aren't.

Mr. PASSMAN. You don't have any fixed formula as to how many volunteers shall be male and how many shall be female, when you are recruiting, do you?

Mr. WHALEN. No; that is set by the requests from overseas.

Mr. PASSMAN. But I say there is no formula, as to whether they are all men or all women. If they meet the Peace Corps criteria, they are in, aren't they?

Mr. WHALEN. That is right.

PERCENTAGE OF MALE AND FEMALE VOLUNTEERS

Mr. PASSMAN. Will you tell me how many of them are male and how many of them are female in your outfit today?

Mr. WHALEN. About one out of three.

Mr. PASSMAN. Let's get a percentage. Overseas, how many men do you have and how many women do you have?

Mr. WHALEN. There are 66.9 percent male and 33.1 percent female.

Mr. PASSMAN. The males outnumber the females 2 to 1.

Mr. WHALEN. That is right.

TRAINING BY COMMERCIAL CONTRACTORS

Mr. PASSMAN. Would you explain briefly what sort of training is conducted by commercial contractors?

Mr. WHALEN. It is the regular training to produce a volunteer, Mr. Chairman. It consists of language training, indoctrination to the host country, training in the skill area he will be responsible for, et cetera.

Mr. PASSMAN. Are these contracts usually with universities and colleges?

Mr. WHALEN. Yes.

Mr. PASSMAN. How long has this program been in effect?

Mr. WHALEN. Since the beginning of the Peace Corps.

Mr. PASSMAN. By commercial contractors, isn't that new?

Mr. WHALEN. No, sir. In previous years virtually all of our training was done with these commercial contractors.

Mr. PASSMAN. How do you define a commercial contractor?

Mr. WHALEN. In terms that we use it here in the Peace Corps, it is any source other than training done in the host country itself or by the Peace Corps. That is, it will be universities, colleges or a few private firms.

Mr. PASSMAN. What do you pay?

Mr. WHALEN. The total cost?

Mr. PASSMAN. What do you pay total in the last full year of your annual appropriation to colleges, universities and private firms for this training? What has been the total cost?

Mr. WHALEN. It is $4.7 million. That is for this year.

Mr. PASSMAN. How many colleges and universities or contractors do you have contracts with?

Mr. WHALEN. Twenty-seven or 28, within that range.

CONTRACTS WITH COLLEGES AND UNIVERSITIES FOR TRAINING

Mr. PASSMAN. Could you list in the record at this point the colleges, universities, and other contractors with whom you have a contract and the amount that they received in 1968 and 1969?

Mr. WHALEN. Yes, sir.

(The information follows:)

Fiscal year 1968 training contractors and amounts obligated

Contractor	*Amount*
American Institutes for Research	$159,613
American ORT Federation, Inc	30,704
Arizona, University of	258,380
California State College at Los Angeles Foundation	447,549
California, University of—Davis	606,501
California, University of—Los Angeles	244,923
California, University of—San Diego	27,793
Catholic Universty of Puerto Rico	436,621
Center for Research and Education	787,898
Community Advancement, Inc	455,621
Development and Resources Corp	1,372,592
Education Development Center	203,322
Experiment in International Living	662,946
Fresno State College Foundation	138,659
Hawaii, University of	2,796,537
Iowa State University	23,981
Kentucky, University of	218,798
Lincoln University	203,721
Los Angeles State College Foundation	190,585
Montana State University	296,868
New York, State University of	127,480
North Carolina College at Durham	119,011
Occidental College	159,771
Pennsylvania State University	116,629
Penn Community Services, Inc	115,655
Radcliffe College	35,387
Rutgers, The State University	101,491
San Diego State College Foundation	1,418,663
San Jose State College Foundation	322,534
Stanford University	79,720
Sun-Air Parks, Inc	98,640
Teachers College, Columbia University	808,925
Texas, University of	253,058
Thiokol Chemical Corp	283,568
Tulane University	32,183
United Auto Workers—Social, Technical and Educational Programs, Inc	100,649
U.S. Public Health Service	143,659
Utah State University	183,380
Virgin Islands, College of the	337,182
Volunteer Training Specialists, Inc	423,274
Washington, University of	164,260
Westinghouse Learning Corp	311,360
Wisconsin, University of	485,090

Fiscal year 1969 training contractors and amounts obligated

Contractor	Amount
American Institutes for Research	$260,518
American ORT Federation, Inc	50,862
Cornell University	13,650
California, University of—Davis	497,357
California, University of—Los Angeles	254,379
Catholic University of Puerto Rico	1,220,870
Center for Research and Education	741,552
Development and Resources Corp	1,369,809
Experiment in International Living	375,340
Fairleigh Dickinson University	90,781
General Learning Corp	83,989
Hawaii, University of	3,011,548
Iowa State University	11,343
Kansas State Teachers College	65,243
Kansas State University	20,406
Kentucky, University of	96,340
Lincoln University	328,575
Massachusetts, University of	5,242
Montana State University	138,012
Nebraska, University of	10,232
New York, State University of	189,950
Oklahoma, University of	149,800
Oregon State University	9,111
Palomar Catering	117,110
Penn Community Services, Inc	59,895
Radcliffe College	57,435
San Diego State College Foundation	1,168,693
San Jose State College Foundation	46,066
Santa Fe, College of	112,287
Sun-Air Parks, Inc	49,500
Teachers College, Columbia University	151,016
Utah, University of	255,285
Utah State University	125,098
U.S. Public Health Service	16,098
Virgin Islands, College of the	465,262
Volunteer Training Specialists, Inc	325,492
Washington, University of	76,947
Westinghouse Learning Corp	1,178,911

Mr. PASSMAN. Is it a matter of fact that it would be a far, far, most successful program if you would hire older people who are already trained rather than take a youngster and give him a brief course and turn him loose?

POULTRY PROJECT IN INDIA

Mr. BLATCHFORD. I think there is a job and great opportunities for both. What I saw in India is young people out of college who we trained and then were able to work on such projects as well blasting, or on the development of new types of chickens which gave 50 to 60 more eggs.

Mr. PASSMAN. Chickens?

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. Have the people started to eat chickens over there?

Mr. BLATCHFORD. I believe they have. It is a pure white leghorn.

Mr. PASSMAN. I thought Indians were vegetarians. There is a very small percent of the people who will eat a chicken or an egg, is that right?

Mr. BLATCHFORD. No. In fact, they advertise a kind of nonfertilized egg and this has become——

Mr. PASSMAN. But the egg is just as fertilized as ever, isn't it? Isn't that part of your game?

Mr. BLATCHFORD. No.

Mr. PASSMAN. The egg is fertilized, isn't it?

Mr. BLATCHFORD. Not necessarily.

Mr. PASSMAN. You have to have a fertilized egg to raise chickens, don't you?

Mr. BLATCHFORD. That is right. But I am talking about eating eggs, about egg consumption itself.

Mr. PASSMAN. I am just as familiar with the program as you are. It is a program to fool the people. Don't be afraid of this egg, it hasn't been fertilized. I believe less than 5 percent of the Indian people will eat meat. Isn't that right?

Mr. BLATCHFORD. I don't know the statistics.

Mr. PASSMAN. You ought to know, or you are wasting a lot of our money in India.

Mr. BLATCHFORD. Certain castes——

Mr. PASSMAN. I am using percentages. Less than 5 percent of the Indian people will eat any kind of meat, isn't that right?

Mr. BLATCHFORD. I believe it is much higher than that, sir.

Mr. PASSMAN. If I recall correctly, I believe I have been told in India, that less than 5 percent of the Indian population will eat meat. If you have other information, put it in the record. You don't have such information with you, do you?

Mr. BLATCHFORD. No, I do not.

(The information follows:)

Estimates of the percent of the Indian population eating meat (poultry, fish, sheep, goats, pork, beef) range from 35 percent to 90 percent. A very conservative estimate would be 35 percent. The estimated population of India is 580 million. Therefore, approximately 200 million people in India will eat some kind of meat, particularly poultry because it is not red meat and, therefore, not associated with beef.

For example: The following groups in India definitely eat meat; Christians, 12 million; Moslems, 50 million; Siks, 9 million; scheduled tribes and lower castes, 100 million.

Mr. PASSMAN. How many Peace Corpsmen do you have in India?

Mr. BLATCHFORD. About 507 right now.

Mr. PASSMAN. How many are you using to teach Indians that these eggs are not fertilized?

Mr. BLATCHFORD. We are not teaching them that the eggs are not fertilized. We are developing a new kind of chicken which can be of better use to the farmers. It is more durable. It gives more eggs. And a young fellow with not a great deal of experience, but with some training, can do that and do it throughout the whole State.

However, this shows very well, I think, the need for experienced people. Right now they need a man in poultry genetics who has more knowledge and experience than the young fellow does.

Mr. PASSMAN. You led up to that. Then you back up and go down the other side of the road. You know and I know that there has been pretty much general agreement that we need older people with more experience in this field, don't we?

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. I have said that ever since the Peace Corps was initiated and you are generally getting around to my view. You know as well as I do this is a technical aid program and these youngsters are pretty much a failure or they wouldn't be brought out of these countries.

REACTION OF COUNTRIES TO OLDER, MORE EXPERIENCED TECHNICIANS

Have you had any reaction from countries which have had the least experienced volunteers replaced by ones with greater experience? Have you had a good reaction?

Mr. BLATCHFORD. So far we have.

Mr. PASSMAN. That is good. Then you make my point. Working together, we will get rid of this agency yet and turn it into what it is supposed to be. That is, a technical aid agency.

BACKGROUND OF VOLUNTEERS IN AGRICULTURE

In India, of your total strength, 360 are in agriculture. Is that correct?

Mr. WHALEN. Yes, sir.

Mr. PASSMAN. How many of the volunteers working in agriculture would know a sweet potato from a rutabaga?

Mr. BLATCHFORD. I think most of them.

Mr. PASSMAN. Most of the volunteers are from the cities, are they not? How many of rural boys do you get who have had some experience in farming?

Mr. BLATCHFORD. We get a fairly large number.

Mr. PASSMAN. How many volunteers do you actually have that came off the farm or were members of a family that had been doing actual farming? Do you have such information in your records?

Mr. BLATCHFORD. I don't have it before me, but we certainly have the background.

Mr. PASSMAN. But you couldn't specifically point out a single one at this time, can you?

Mr. BLATCHFORD. Yes.

Mr. PASSMAN. You can? Name one. Tell me what state he is from, where he is assigned, and whether he is a man you got off the farm who had some practical experience in farming?

Mr. BLATCHFORD. I don't know the names of the individual volunteers.

Mr. PASSMAN. All right, you don't know. Then will you agree with me that there is a lot of difference between practical experience and what you read in the book?

Mr. BLATCHFORD. I talked with about nine married couples in the State of Maharashtra in India who were introducing seeds and fertilizer and pesticides, and they were doing very well.

Mr. PASSMAN. Let me know their names and addresses and how long they were on the farm. Will you do that?

Mr. BLATCHFORD. For India or for the whole Peace Corps?

Mr. PASSMAN. Any of them. I will let you cover the world, to make your case.

Mr. BLATCHFORD. All right.

(The information follows:)

Of all Peace Corps Volunteers presently in agricultural programs, approximately 53 percent have had actual farm experience, having lived and worked on a farm. The remaining number have had extensive academic training usually with degrees in agriculture, animal husbandry or other related fields.

In the Maharashtra District in India, Mr. Blatchford met with the following nine volunteer couples working in a tribal agriculture program:

Janet and Jonathan Crystal
Mary and John Hedderson
Jacqueline and Daniel Brown
Doris and Chester Lee
Janet and Richard Miller
Susan and James Robinson
Claydia and Rex Emenegger
Sandra and Gerald Carlson
Jean and David Wallace

Of this group half have worked and lived on a farm. Four have degrees in agriculture and animal husbandry. One has a degree in biology. The rest offer assistance in such areas and law, economics and home economics.

Of the total number of Peace Corps Volunteers engaged in any activity, approximately one third have an agricultural background.

Mr. PASSMAN. You know that I know that these boys, who call themselves farmers took a course in agriculture in school and you could put a sweet potato and a rutabaga in front of them and they wouldn't know one from the other.

That is one reason why I say you need older men with more experience. You have agreed, and I am very appreciative of that.

INCREASE IN TRAINING COST PER VOLUNTEER

In this year's budget presentation you indicate that training input for fiscal 1970 will be 1,405 at an increased cost per trainee from $3,600 to $3,800. In last year's presentation you projected a trainee input for fiscal 1970 as 1,400 at a cost per trainee of $2,800. What accounts for this tremendous increase in training cost per trainee?

Mr. WHALEN. Mr. Chairman, as we have explained in our presentation on page 20, we have had several changes taking place in these training centers.

Mr. PASSMAN. I wouldn't have asked the question if you hadn't had.

Mr. WHALEN. One is the change in the nature of the training. It has become split between our training centers and the host country.

Mr. PASSMAN. You mean you are setting up a different program than you had in the past?

Mr. WHALEN. Programs are continually changing, of course, as the requests and needs vary. But we have changed the nature of the training.

Mr. PASSMAN. I don't think you are studying your justifications as closely as you should.

Look at page 26 of last year's justifications. And then look at page 20 of this year's justifications.

Mr. WHALEN. Yes, sir. One of the problems here, in addition to the change in training that I just touched on, is the question of the trainee load in the centers.

Mr. PASSMAN. Trainee load?

Mr. WHALEN. The numbers of trainees in the training centers. You know they are cheaper by the dozen.

Mr. PASSMAN. You have been doing that all along.

Mr. WHALEN. Yes, sir; to the extent we have had high trainee loads, the cost per capita becomes less expensive. I might point out that the overall cost——

Mr. PASSMAN. You had 1,400 last year and propose 1,405 trainees this year. You know that an additional five trainees doesn't make that difference. Why don't you do a little research and find out why?

Mr. WHALEN. I am not sure I follow that, Mr. Chairman.

Mr. PASSMAN. If you will look at your records, you will find it. Just look at the record, get your pencil and add them up.

Mr. WALEN. You are looking at the 1969 estimates made in last year's congressional presentation which was prepared in February 1969. At that time the fiscal year was not yet completed.

Mr. PASSMAN. You made your justification on that basis, did you not?

Mr. WHALEN. We made it——

Mr. PASSMAN. You made your justification last year on the figures I just used, didn't you?

Mr. WHALEN. Yes, sir.

Mr. PASSMAN. And they were very inaccurate last year and I would assume they are just as inaccurate this year.

Mr. WHALEN. They actually turned out to be about 1,000 instead of 1,300 or 1,400, and these actuals are the figures we have reported to you for fiscal 1969 in this presentation.

Mr. PASSMAN. I don't follow you at all, because your own statistics just don't justify this tremendous increase if you gave us accurate information last year. The cost jumps from $2,800 to $3,800 when the other table itself is only 1,405 trainees versus 1,400. I guess you will have to have some justification for it, but it doesn't satisfy me that you knew what you were talking about last year.

Mr. WHALEN. The words are there on page 20 of this year's presentation.

Mr. PASSMAN. I know they are.

COST OF PTR'S VERSUS COST OF COR'S

Since the use of the program technical representative, the PTR, appears to be much cheaper than using the contractors overseas representatives, the COR, why do you continue to use CORs since the cost per man-year is $45,000? The PTR cost per man-year is $28,899.

Mr. WHALEN. Mr. Chairman, as you know, we have reduced the number of contractors overseas representatives sharply in every year since 1965 and we now have only seven of these personnel on board. The reason we still have these seven is because they are filling specialized positions, doing jobs that a regular PTR cannot fill. In other words, we use them only when we have to.

RESEARCH PROGRAM

Mr. PASSMAN. You estimate your research program will cost $500,000 for fiscal 1971. Please provide for the record a paper showing the research projects you presently have under contract with colleges, universities and private organizations.

Mr. WHALEN. Yes, sir.

(The information follows:)

CONTRACTED RESEARCH UNDERWAY AS OF MARCH 1970

Title	Purpose	Contractor	Due date	Cost
1. Development of an effectiveness measurement system for Latin American co-op programs.	To develop a practical and workable system to be used by staff, volunteers, and local supervisors in country for evaluating the effectiveness of co-op projects in Latin America.	American Technical Assistance Corp.	June 1970	[1] $107,552
2. Latin American agriculture programing manual.	To develop a manual for programing agricultural projects in Latin America designed to direct Peace Corps toward those agricultural projects which are most feasible and profitable for small farmers.	Basico, Inc	do	[1] 51,482 [2] 2,663
3. Manual for programing with Indian populations in Latin America.	To provide Peace Corps staff with guidelines for programing with Indian populations in Bolivia, Peru, Ecuador, and Guatemala.	UCLA/Latin American Center.	do	[1] 53,512
4. Analysis of the completion of service conference questionnaire.	To provide information for Peace Corps staff on volunteer performance overseas and project effectiveness to aid in decisionmaking.	Oregon Research Institute.	April 1970	[1] 61,190
5. Data bank for answering some questions about volunteer selection and overseas performance.	This study by Oregon Research Institute is designed to answer questions on topics such as training of volunteers, attrition and extension of volunteers, and matching of skill background with Peace Corps jobs. Currently, the contractor is developing a questionnaire for providing information on staging of trainees.	do	June 1971	[1] 144,944
6. The full field investigation's contribution to the Peace Corps selection process.	To determine how much the full field investigation adds to the selection process, over and above the selection data collected during training.	Richardson, Bellows, Henry & Co.	December 1971.	[1] 20,529
7. Human Development Foundation.	To explore research possibilities and resources, and design research studies.	Human Development Foundation.	April 1970	[1] 3,960
8. Self-assessment workshop	To develop a technique for trainees to determine their fitness for Peace Corps service; this is a supplementary selection procedure.	do	May 1970	[3] 48,266

[1] Fiscal year 1969.
[2] Fiscal year 1970.
[3] Fiscal year 1967.

IN-HOUSE RESEARCH PROJECT

Mr. PASSMAN. Provide a similar table for your in-house research projects.

Mr. WHALEN. Yes, sir.

(The information follows:)

IN-HOUSE RESEARCH UNDERWAY AS OF MARCH 1970

Title	Purpose	Completion date	Cost
(1) Background interview system validation.	To determine whether an interview system over the telephone is more valid and appropriate for Peace Corps than the full field investigation.	April 1970	[1] $2,000
(2) Study of early terminations.	To examine statistics regarding early termination of volunteers overseas.	do	[2] 15,000

[1] Fiscal year 1969 estimate.
[2] Fiscal year 1970 estimate.

ENCOURAGEMENT OF VOLUNTEER SERVICE PROGRAMS

Mr. PASSMAN. Under the "Encouragement of volunteer service programs" you indicate that the fiscal 1969 cost was $87,000 and the estimate for fiscal 1971 is $290,000. Could you explain this project and tell the committee the reasons for this activity, which is estimated to triple in cost in 1971 over 1969?

Mr. WHALEN. Mr. Chairman, the reason for this increase is that we have funds budgeted for increased cooperation with the United Nations and other international organizations.

Mr. PASSMAN. Are you people now getting into that monkey business—the United Nations and other international organizations?

Mr. WHALEN. In a very modest way, Mr. Chairman.

Mr. PASSMAN. By what authority?

Mr. BLATCHFORD. It is title III of the Peace Corps Act that allows us to encourage this.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. How much money have you contributed to international organizations since your tenure, Mr. Blachford?

Mr. BLATCHFORD. We haven't contributed any money to international organizations.

Mr. PASSMAN. Have you reimbursed them for any services rendered?

Mr. BLATCHFORD. No.

Mr. PASSMAN. Presently?

Mr. BLATCHFORD. No.

Mr. PASSMAN. Do you plan any type of a program that will take you into the United Nations or any other international organizations?

Mr. BLATCHFORD. The President has pledged to the United Nations that——

Mr. PASSMAN. I am asking you the question. What does the President know about this? You realize that the President can't be in on every detail? My question is, do you have any plans presently to go into the United Nations or any other type of international organization?

Mr. BLATCHFORD. We have plans to work out agreements with United Nations organizations, such as the International Labor Organization, the Food and Agriculture Organization, or international organizations which have high level expertise and staff that can back up our volunteers in the field.

Mr. PASSMAN. This is new; isn't it, this approach?

Mr. BLATCHFORD. This is an approach that we have the authority for but which we haven't done before.

Mr. PASSMAN. I asked is this new?

Mr. BLATCHFORD. It is now from the standpoint of implementation. It is not new as a concept.

Mr. PASSMAN. I am not talking about an idea, my friend. You just said you have never made any contribution or reimbursed any international organization.

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. Including the United Nations?

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. So this would have to be a new approach then if you proceed with a program, would it not?

Mr. BLATCHFORD. It would be a new program.

Mr. PASSMAN. Then why don't you answer my questions as I ask them?

Mr. BLATCHFORD. Because——

Mr. PASSMAN. How much do you have budgeted for this program in 1971?

Mr. BLATCHFORD. $200,000.

Mr. PASSMAN. From little acorns big trees grow. You have heard that expression?

Mr. BLATCHFORD. I have heard the expression.

Mr. PASSMAN. Would you agree that that is right?

Mr. BLATCHFORD. But it hasn't applied, I don't think.

Mr. PASSMAN. This can be eliminated by a limitation in our legislation. We will make a specific note at this time. You might as well come down out of this tree that you are in.

Mr. COHELAN. Will the gentleman yield?

Mr. PASSMAN. I am reserving for myself the right to finish my questioning first. I want to thank the gentleman for letting me finish because there are a lot of strange jokers in this deck.

Mr. COHELAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Where would the $200,000 be spent?

Mr. BLATCHFORD. We want to have the flexibility to deal with a program such as Indonesia, where the Government has asked for volunteers but would prefer them to work on a multinational basis. We would like to be able to help work that out.

Mr. PASSMAN. Is that the right philosophy—that it is easier for people to accept it if you don't identify it?

Mr. BLATCHFORD. Some have requested the Peace Corps in different forms. Some request the regular Peace Corps program and some request a shared operation, where they can work alongside volunteers of other nations.

Mr. PASSMAN. Where it cannot be identified as direct U.S. aid, is that right?

Mr. BLATCHFORD. It would be identified as Peace Corps volunteers, but it wouldn't be identified strictly as an American operation.

Mr. PASSMAN. So you remove the American concept or presence from it, don't you?

Mr. BLATCHFORD. No, you don't.

Mr. PASSMAN. You don't?

Mr. BLATCHFORD. You broaden it so you have a multinational concept with a number of nations working together.

Mr. PASSMAN. I know what you people are going to do. You are going to fool around and get all mixed up with these international organizations and the first thing you know, instead of it being a $200,000 program, it will be $2 million. I don't thing you people have had the experience to get involved in this type of international entanglement.

Mr. BLATCHFORD. I think it is very limited, the amount of countries that would be affected by this.

Mr. PASSMAN. The Peace Corps was limited in the beginning. How many countries did you start off with the first year?

Mr. BLATCHFORD. Just a handful of countries, I am sure.

Mr. PASSMAN. You get the point then, don't you? It starts small.

Mr. BLATCHFORD. There are just so many developing countries, though.

Mr. PASSMAN. I know.

Mr. BLATCHFORD. The Peace Corps is working in most of them.

Mr. PASSMAN. The chances are, as soon as the Vietnam war is over, this thing will solve itself. I won't have to worry any longer.

Mr. BLATCHFORD. There were lots of applications before the Vietnam war.

Mr. PASSMAN. There are many reasons why they volunteer, such as the paid vacation and the foreign travel is attractive. I had the same desires as a youngster.

TRAINING OF FOREIGN NATIONALS

Training of foreign nationals appears to be a new program this year. Is that correct?

Mr. BLATCHFORD. We have revised this program since we prepared our presentation. We have decided to drop the program of bringing foreign nationals to this country to be trained.

Mr. PASSMAN. How much did you have in this budget request for this type of a program?

Mr. BLATCHFORD. It was $250,000.

Mr. PASSMAN. We will make a note of that. That will be another item we will write out with a limitation.

I question whether I want to interrogate any further. I intend to tell the President about this program. I don't mean to be offensive. I think this is the worst program ever conceived. I think it has been a misrepresentation from the beginning, because of the name, the Peace Corps. I just don't know where you have done any good. There is no indication of it. I have tried a couple of years to be completely objective about this program and to try to find something good about it, other than your mythical accomplishments.

You are too fine a group of youngsters to be involved in this. You ought to get back in the free enterprise system, or in some other branch of government.

Mr. BLATCHFORD. I would like to supply for the record some tangible evidence of response from governments and the American people.

Mr. PASSMAN. I want you to take some person and show that she couldn't do this but after the Peace Corps finished with her she could do this and here is where she is assigned and here is what she is doing. You pick one. That is all I want. Maybe she would have made more progress without the Peace Corps. Certainly you people have to put your best foot forward.

When I see you people being run out of these various countries, and knowing a lot more disturbance you have had which hasn't hit the press, it would appear to me that you yourself would want this outfit abolished. I just don't see how you can take these indictments and still come before this committee and request funds. That is something I can't comprehend.

(The information follows:)

Peace Corps Volunteer architect Nick Perakis arrived in Peru in 1965. He was assigned to work with a group of small rice farmers who had organized an agriculture cooperative and had hopes of constructing a rice mill. During his first year the work consisted largely of helping the co-op remain as an organization. In his second year of service the plans for the mill began to become a reality and Nick designed the mill.The co-op experienced many problems including the devaluation of the currency, but construction finally got underway under the leadership of Nick as construction engineer. The task took more than the two years of Nick's service, but his dedication to the campesinos, and beslightly more than four years. The rice mill was constructed and is the largest

cause of their faitn in him, he extended his Peace Corps service to what is now slightly more than four years. The rice mill was constructed and is the largest of its kind in Latin America. The group of campesinos are proud of what they've accomplished, are grateful for the services rendered by Mr. Perakis and will no longer need a Volunteer unless it's a high level business type to consult on their business and management practices.

Mr. PASSMAN. I must talk to the President. I just don't believe he understands this outfit, and that is no indictment of you. You accepted this job.

PRESIDENTIAL REVIEW OF PEACE CORPS BUDGET

Mr. BLATCHFORD. I have discussed it with him several times and he has given us his full support.

Mr. PASSMAN. How do you get in several times to see him, when Members of Congress, who are his friends, can't see him? Maybe that is a good question too. Do you realize it would take 1,293 men to do all the things issued in the name of the President? If you owned a filling station with two attendants, at least 40 percent of all the decisions would be made by those two subordinates.

Mr. WHALEN. This is the President's budget. The President personally approved this budget for 1971.

Mr. PASSMAN. You were there at the time?

Mr. BLATCHFORD. I discussed it with him in December.

Mr. PASSMAN. Do you think the President personally went over this entire voluminous budget?

Mr. WHALEN. He actually went over the Peace Corps.

Mr. BLATCHFORD. And he also invited all of the country directors to the White House.

Mr. PASSMAN. Do you know that all the other agencies say the President went over their budget, too? I have reservations about how deeply he went into this one.

Mr. BLATCHFORD. In September he invited all of the country directors of the Peace Corps to the White House.

Mr. PASSMAN. He invites a lot of other people there too. He is in politics just like I am. That is part of the game.

But I am going to talk to the President about this agency. Mr. Shriver, do you have some questions?

NUMBER OF VOLUNTEERS

Mr. SHRIVER. Thank you, Mr. Chairman. One of the new directions mentioned in your justifications for the Peace Corps is a relative constant strength from 1969 through 1971 of approximately 10,000 volunteers and trainees. Do you envision this to be the best working level for the Corps in the future? Would this mean that you would have an average of 7,000 volunteers overseas at any one time?

Mr. BLATCHFORD. Congressman Shriver, we have planned this budget on maintaining a total strength of about 10,000 and this would be a good working level for the Peace Corps in the future. As I mentioned in my statement, we do not seek any expansion, but want to halt the decline in the number of volunteers during the last several years and stabilize our strength. Of course, rather than just numerical

strength alone, I think the more important measurement of our work is in the quality and accomplishments of each individual volunteer. Quality is naturally more important than sheer numbers and quality is what we are concentrating on.

With respect to our average number of volunteers overseas, the program proposed in this budget would keep that number somewhat above 7,000 in fiscal 1971.

ORIGINAL BUDGET REQUEST

Mr. SHRIVER. Was the $98.8 million in this request your original budget estimate, or was your original figure cut back by the Bureau of the Budget?

Mr. BLATCHFORD. As you know, we work closely with the Budget Bureau to develop the program and budget requirements for each fiscal year. Our original estimates made last fall were somewhat higher than $98.8 million. Working together with the Bureau, we further refined the budget figures and jointly recommended a program of $98.8 million which the President reviewed and approved.

COST OF HEALTH EXAMINATIONS

Mr. SHRIVER. You show a unit cost of $19 per person for the health examinations given to prospective trainees. How thorough can this examination be for only $19 per person?

Mr. BLATCHFORD. The figure of $19 per person for health examination reflects an average of costs for a complete physical examination. These examinations are performed for the most part at Federal facilities such as Navy, Air Force, and Public Health Service hospitals. This low cost reflects our utilization of Federal facilities.

Whenever great inconveniences would be encountered in utilizing Federal facilities, private physicians are used.

EFFECTIVENESS OF VARIOUS TRAINING METHODS

Mr. SHRIVER. We have had many discussions in this committee regarding the relative cost per trainee of the five training methods used by the Peace Corps. Would you tell us your observations after a year as director concerning the relative effectiveness of those 5 methods.

Mr. BLATCHFORD. The five training methods currently used by the Peace Corps reflect our efforts to maximize use of available training resources and to provide each volunteer with training which will enable him to do his job overseas well. The selection of type of training for a given project is controlled by such wide-ranging variables as level of technical proficiency required, availability of training resources to meet that requirement, planning and logistics demands, language training requirements, and prior Peace Corps experience in that project area and country.

HOST COUNTRY TRAINING

Mr. SHRIVER. In discussing incountry training you say that your experience has demonstrated that, where conditions are suitable, training in host countries can provide better training at a lower cost. Would

you explain these "conditions" further and tell us why such training is not being used more extensively?

Mr. BLATCHFORD. Preliminary observations indicate that while in-country training is effective and less costly than other methods when done under suitable conditions, programs requiring high levels of skill perfromance generally demand professional training resources available only through U.S. contractors and on some occasions only at U.S. sites.

At this time we have no conclusive data demonstrating greater overall effectiveness of one training method over another. We are, however, developing a training data bank with type of training as a baseline reporting standards. This data bank will permit a more comprehensive analysis of the effectiveness of our approaches in relation to volunteer performance in the field.

ADVANCED TRAINING AND PROFESSIONAL SUPPORT EXPENDITURES

Mr. SHRIVER. It would seem that as you recruit more highly qualified technicians for the Peace Corps, your expenditures anticipated in fiscal 1971 for Advance Training and Professional and Technical Support would decrease. However, this is not true to any significant degree. Why not?

Mr. BLATCHFORD. Advance training programs have been cut back sharply over the last several years and, at the present, consist of one continuing project with the State University of New York at Brockport, which is designed for the specific purpose of providing math/science teachers. Therefore, there is no direct connection with the technical or skilled workers programs we have recently begun.

Professional and technical support is provided in the general areas of agriculture, health, and education, and is not necessarily related to any highly specialized skill, such as plumbing, carpentry, or masonry. However, the number of technical representatives was reduced from 79 to 67 in fiscal year 1970. This level is being maintained despite our plans for having programs in 64 countries during fiscal year 1971. as compared to 61 in fiscal year 1970.

DEPENDENTS SUPPORT ITEMS

Mr. SHRIVER. You are requesting $180,000 for Dependents Support during the parents training periods, and $775,000 for the same item when the parents are overseas. This is the first time for this request. Would you explain what benefits are involved? Would you expect this item to increase in future years?

Mr. BLATCHFORD. The funds requested for Dependents Support anticipate 200 familes with an average of two children each or 400 dependents. These support funds during the 12-week training period provide for medical examinations, innoculation and care, transportation to the training site, and room and board; the total cost is $450 per dependent or $180,000. The $775,000 requested for overseas support includes transportation to the host country site, a living allowance of approximately 50 percent of the volunteer rate, and a sum for education allowances, medical care, and other miscellaneous items.

As you are aware, the Peace Corps has no previous experience in this area upon which to base our estimates. Until such experience develops, we have used data related to the cost of volunteers.

For future years, we would expect such support costs to vary in accordance with the numbers of children in families undergoing training and in-country overseas.

INCREASE IN CONTRACT TRAINING

Mr. SHRIVER. Last year during the hearings, you told me you were moving away from contract-type training. On page 25 of the justifications, you show an increase in the number of new trainees slated for this type of training from 1,563 in 1970 to 1,713 in 1971. Why this increase?

Mr. BLATCHFORD. Congressman Shriver, it is correct that over the past several years the Peace Corps has moved away from contract training. Regular contract training accounted for over 90 percent of our trainee input in 1966, about 70 percent in 1967, and is now down to in the vicinity of 25 percent. However, this trend is now somewhat stabilized.

We attempt to train in-country whenever that gives us the best promise of conducting a sound and successful training program that will produce good volunteers at a reasonable cost. However, for many programs, we have found that the best training is at our own Peace Corps training centers in Puerto Rico, the Virgin Islands, and Escondido, Calif., or by contract—usually with colleges and universities here in the United States.

In a nutshell, we train at the location where the best capability exists and where we think we can get the best training for the dollar. The decision of where to train is made on the basis of our considerable experience with a large number of colleges and universities, our own centers, and with in-country training.

For fiscal 1971, with a total input of 7,000, we would expect the number of regular contract trainees to be about 1,713, or roughly 25 percent of the total. This is the same percentage of the total input as in 1970.

COST CHANGE IN THE VARIOUS ALLOWANCES

Mr. SHRIVER. On page 27 of the justifications you state that the increase of $281 per volunteer for living expenses has been offset by corresponding reductions in the other support areas of job-related supplies, travel, medical expenses, and clothing. According to my rough calculations, the total effect of the increases in the living allowances and the settling-in allowances is $2,292,239. Using the figures in the justifications for the other items which show reductions because of this change in policy, I could find reductions of only $1,548,303. Thus, it would appear that the change in policy to combine all of these allowances has resulted in a net increase of $743,936. Would you comment on this increase?

Mr. BLATCHFORD. Beginning in fiscal year 1970, a general policy change on volunteer allowances was initiated with the aim of making volunteers less dependent on the staff for support. Generally, living allowances were increased to cover such costs as in-country travel, medical, and supply costs which were previously paid on a reimburs-

able basis. The specific clothing allowance was eliminated and funds were provided in the living allowance based on local needs.

These allowances include both one-time payments and those paid on a recurring basis.

The following table reflects the average for the various allowances in fiscal year 1969 and an estimate of the impact of the above changes in fiscal year 1970 and 1971:

(The table follows:)

	Fiscal year 1969	Fiscal years 1970 and 1971	Change
Recurring allowances:			
Living	$1,119	$1,400	+$218
Leave	246	216	−30
In-country travel	114	80	−34
Medical supplies and services	193	150	−43
Job-related supplies	45	30	−15
Miscellaneous	262	250	−12
Subtotal	1,979	2,126	+147
1-time allowance (prorated):			
Clothing	75	----------	−75
Settling in	51	72	+21
Subtotal	126	72	−54
Grand total	2,105	2,198	+93

Mr. Blatchford. The net increase of $93 per volunteer man-year, or $716,379 is not caused by the policy changes for the payment of allowances but rather is the result of local cost of living increases as known at the time the budget was prepared. These increases had to be taken into account in our fiscal year 1970 and fiscal year 1971 estimates in order to reflect actual costs overseas.

PURCHASE OF VEHICLES

Mr. Shriver. You are requesting $496,000 to purchase and ship 125 vehicles in 1971, for a total unit cost of $3,965 per vehicle. This seems rather high. Have you considered other methods of obtaining transportation in the recipient countries, perhaps through a leasing arrangement, or by having the host countries furnish this transportation?

Mr. Blatchford. Before procuring any vehicle, the Peace Corps considers the purposes for which that vehicle will be used, the local conditions under which it will be operated, local maintenance capabilities, the need to "buy American" whenever feasible, and the possibility of lease arrangements (if available). In order to provide dependable transportation at the lowest reasonable cost, we may then decide to buy a U.S. vehicle or buy a foreign vehicle or lease. In addition, host countries are requested to provide transportation as part of their support of the Peace Corps and do so wherever possible. We have always had a "mix" of these methods, and the exact method chosen must be tailored to each local situation.

It should be pointed out that the total estimate of $3,965 per vehicle includes $800 in shipping costs. Also, the majority of Peace Corps vehicles are used under very rugged conditions. Heavy-duty suspension, four-wheel drive or other features are frequently required and these add to the purchase cost.

RENTAL HOUSING REQUEST

Mr. SHRIVER. Included in your request for miscellaneous costs is an item for rental of volunteer housing "when not included in the living allowance." When is housing not included in the volunteers' living allowance? What is the amount of this rental housing request?

Mr. BLATCHFORD. The request includes $502,000, or approximately $69 per volunteer man-year. Housing is not included in the volunteers' living allowance when housing is paid directly by the Peace Corps or is furnished by the host country. The method of providing housing can vary within a country, with different arrangements for various regions or Peace Corps programs.

READJUSTMENT ALLOWANCE

Mr. SHRIVER. Do the volunteers and trainees draw interest on their readjustment allowance while these funds are in deposit accounts pending their completion of service?

Mr. BLATCHFORD. Volunteer and trainee readjustment allowances are deposited monthly in the Peace Corps readjustment allowance account which is maintained by the Treasury Department. Funds in this account do not receive interest. However, each volunteer does have the option and is encouraged to initiate a monthly bond allotment for the purchase of U.S. savings bonds for either $18.75—$25 bond—or $37.50—$50 bond—per month. The volunteer will then, of course, receive interest on these savings bonds.

RESEARCH PROJECTS

Mr. SHRIVER. You are again requesting $500,000 for research. Last year in response to my question you submitted a brief review of some of these research findings. Would you do this again this year including any actions which have been taken to change the program as a result of these research findings? How many of these research projects were undertaken by former Peace Corps volunteers or staff? Would you please list these and include what they were paid for their efforts?

Mr. BLATCHFORD. Yes. We will provide a listing of findings of fiscal year 1969 completed research projects and descriptions of research projects still underway. Former Peace Corps staff are researchers on four projects awarded in fiscal year 1969. These projects including their estimated costs will be listed.

(The information follows:)

COMPLETED FISCAL YEAR 1969 CONTRACTED RESEARCH

Contractor	Title and description	Completion date	Estimated cost
Richardson, Bellows, Henry & Co., Inc.	The Full Field Investigation's Contribution to the Peace Corps Selection Process. Description: One in a series of studies on the Peace Corps' use of the full-field investigation, phase I of this research supported the proposition that selection/assessment can be conducted successfully without full-field investigations. The results have been used in decisions regarding further use of the full-field investigation by Peace Corps.	May 1970	$20,529
Oregon Research Institute	Continuation of a Follow-up Study on the Full Field Investigation. Description: The contractor found that the full-field investigation did not predict successful volunteers any better than the Peace Corps references. Like the previous study by RBH the results have been used in making decisions about the full-field investigation.	Aug. 31, 1969	16,783
Louis Harris & Associates	College Seniors and the Peace Corps—1969. Description: This study was aimed at identifying potential Peace Corps Volunteers on campus and determining the best methods of recruiting them. The findings were used in (1) projecting numbers of college applicants, (2) anticipating attitudes concerning social issues which affect recruiting on campus; and (3) determining what changes in Peace Corps operations would increase interest of college students in joining the Peace Corps.	June 1969	24,500
Decision Making Information (DMI).	Peace Corps ECHO Survey of Students in California Colleges. Description: This was a small pilot study designed to test the ECHO survey techniques and to assess their applicability to Peace Corps policymakers' needs. No further ECHO surveys have been contracted by the Peace Corps.	June 1969	5,100
Forera Corp	A Study of Special Recruiting for the Peace Corps. Description: Peace Corps recruiters need guidelines for recruiting special groups of people such as nurses, farmers, blue-collar workers, teachers, minority groups. The study specified ways in which Peace Corps could appeal to these target groups. The report and transcripts were used by recruiters and policymakers concerned with implementing new directions policies.	June 1969	16,300
Roper	Recruitment Study Among Teachers and Skilled Workers. Description: This study concluded that Peace Corps could attract more experienced teachers and skilled workers, provided that certain changes were made. The study has been used in recruiting teachers and skilled workers. It has been useful also in determining policies regarding these groups.	June 1969	36,000
Louis Harris & Associates, Inc.	A Survey of Returned Peace Corps Volunteers. Description: This was a study of the activities and attitudes of returned Peace Corps volunteers. The findings are being used to counsel volunteers on career opportunities and to recruit prospective volunteers. The results have been released publicly.	September 1969	58,000
Benson & Stagg, Inc	Direct Mail Study. Description: This study was an evaluation of the Peace Corps' direct mail program. The contractor also designed new materials now being used in the Peace Corps school partnership program.	September 1969	16,300

ONGOING FISCAL YEAR 1969 CONTRACTED RESEARCH

Contractor	Title and description	Completion date	Estimated cost
UCLA/Latin American Center	Programing With Indian Populations in Latin America. Description: The contractor is preparing two manuals to provide practical guidelines for development of Peace Corps programs among Indian populations to be used by staff in Bolivia, Peru, Ecuador, and Guatemala.	December 1970	$53,512
Basico Corp	Latin American Agricultural Programing Manual. Description: The contractor will produce a practical manual for use by staff and volunteers in planning for effective and profitable agricultural programs for small farmers.	June 1970	51,482
American Technical Assistance Corp.	Effectiveness Measurement System for Peace Corps Cooperatives Projects in Latin America. Description: To develop data collection instruments and a practical, workable system to be used by staff, volunteers, and local supervisors in-country for determining the effectiveness of co-op projects. The concepts will be useful in developing effectiveness measures for other types of programs.	June 1970	107,552
Human Development Foundation.	Human Development Foundation—Basic Contract and Overhead. Description: The Human Development Foundation is a nonprofit institution funded by Peace Corps to aid in the designing of research and selection of research contractors. The Foundation has responded to a number of small, short term requests.	June 30, 1970	26,094
Oregon Research Institute	Analysis of Completion of Service Questionnaire Responses for 1969. Description: The major purpose for reporting COSQ data is to provide feedback to both overseas and Washington staff from volunteers who have completed their service overseas.	(1)	(2)
Oregon Research Institute	Data Bank for Answering Some Questions About Volunteer Selection and Overseas Performance. Description: To maintain an up-to-date data bank on Peace Corps volunteers and trainees and to provide a source for analysis of data as requested by Peace Corps offices.	(2)	(1)
Oregon Research Institute	Analysis of Volunteer Performance Overseas. Description: The contractor has developed a model for studying overseas activities of Volunteers. Reports have been prepared on each region which show the relative standing of each country on various measures such as site difficulty, general performance and cultural interaction. Further analyses on other measures may be requested by regional offices.	(2)	(1)

[1] This is a level-of-effort contract with the Oregon Research Institute ending May 1971.
[2] In fiscal year 1969, $206,000 was obligated to fund studies on volunteer selection and performance and projects overseas as requested by Peace Corps.

FISCAL YEAR 1969 RESEARCH PROJECTS UNDERTAKEN BY FIRMS EMPLOYING FORMER PEACE CORPS STAFF

Title	Contractor	Estimated cost
1. A survey of returned Peace Corps volunteers	Louis Harris & Associates, Inc. (One of the researchers on the project was a former staff member).	$58,000
2. The full field investigation's contribution to the Peace Corps selection process.	Richardson, Bellows, Henry & Co. (The project director of this research is a former Peace Corps staff member).	20,529
3. LA agricultural programing manual	Basico, Inc. (The project director of this research is a former Peace Corps staff member).	51,482
4. Development of a measurement system of effectiveness of LA coop projects.	American Technical Assistance Corp. (The project director of this research is a former Peace Corps staff member).	107,552

The Human Development Foundation serves in a professional advisory capacity as requested by the Peace Corps. Some of HDF's board members are former Peace Corps staff. Two of the part-time administrative staff are former Volunteers. The Human Development Foundation is not included in this listing since it is not conducting research projects in FY 1969

VOLUNTEER RATING

Mr. SHRIVER. On page 551 of last year's hearings it is stated that one of these research projects developed a simple reliable rating scale so that overseas staff can rate the performance of volunteers. Have any volunteers been replaced or relocated as a result of such ratings?

Mr. BLATCHFORD. No. These ratings were not designed for use by overseas staff in replacing or relocating individual volunteers. The overseas staff questionnaire to which you refer was developed to collect comprehensive information about volunteer activities as viewed by staff. These ratings were analyzed collectively to provide information on Peace Corps projects in reviewing the results of selection, training, and programing activities of the Peace Corps.

REGISTRY OF VOLUNTEERS

Mr. SHRIVER. You say one of the responsibilities of the Office of International and Special Programs is to develop a registry of volunteers and volunteer programs of all countries. Would you include this registry in the record of these hearings? Please include what these other coutries are spending on their programs.

Mr. BLATCHFORD. The registry you are asking about is, as I mentioned, in the process of development. We presently have a contract under consideration for the preparation of such a registry. We are also consulting with other volunteer agencies as to their participation therein, since it would be meaningless if others did not participate. We are primarily investigating two fields: First, the possibilities of establishing a registry which would have in it the names of potential recruits to serve in international or multinational volunteer programs, and second, a registry of former volunteers who would be available to return to their country of assignment in times of disaster to serve as disaster relief personnel. We hope to make available the services of a full-time individual who can investigate these possibilities for a registry in the course of the coming months.

In such matters we obviously must work closely with the other major volunteer exporting organizations, most of which are European. It is difficult to obtain exact figures on their budgets and each functions under different budgetary systems—for example, the Swedish volunteers operate entirely within the Swedish foreign aid budget—but I can provide the figures we have available on the total number of volunteers in each major organization and the average per capita cost per volunteer, which obviously also varies a great deal depending on items such as cost-of-living and transportation costs. Therefore, in reply to your question, the following are the number of volunteers and costs thereof for the other countries for which we have statistics:

(The information follows:)

Country	Costs per volunteer man-year as of Dec. 31, 1969 (in U.S. dollars)	Number of volunteers as of Dec. 31, 1968
Denmark	[1] 5,565	190
Finland	7,160	22
France	[2] 5,200	[3] 500
		[4] 6,700
Germany	8,180	[5] 1,020
Japan	4,600	348
Netherlands	[6] 8,500	[5] 258
Norway	[1] 5,450	123
Switzerland	[2] 5,900	[5] 71

[1] Without headquarters costs.
[2] Without headquarters personnel.
[3] 500 "Volunteers for Progress."
[4] 6,700 "Cooperation Volunteers."
[5] Without private volunteer organizations receiving government subsidies.
[6] Without costs for selection and headquarters.

Mr. SHRIVER. Do you interpret title III in such a way that you might furnish program assistance as well as technical assistance to other national or international volunteer programs?

Mr. BLATCHFORD. With respect to title III, if our amendment is approved, I see it giving us more latitude to work more closely with other volunteer organizations. This could mean providing both technical and programing assistance to national and international volunteer programs, but of course we always intend to assure that others carry a fair share of the burden on a pro rata basis. We do not intend to sponsor such programs unilaterally, but we do have considerable expertise and know-how which we can make available to help others, particularly the developing nations themselves that wish to set up their own internal volunteer programs. The proposed amendment would give us more authority to undertake such activity, to get things started, on a pilot basis to see how they work out.

TRAINING OF FOREIGN NATIONALS

Mr. SHRIVER. You are requesting $250,000 to train 100 foreign nationals in the United States in fiscal 1971. Is this the much-criticized "Exchange Peace Corps"?

If these people are being trained to serve in their own countries or in third countries, why couldn't they be better trained in those countries rather than "in Washington, at Peace Corps training camps, or in U.S. communities"?

Mr. BLATCHFORD. As I mentioned to the chairman earlier, since the time when we prepared our congressional presentation, we have decided to drop the program of bringing foreign nationals to this country for training and we are not requesting any funds for this purpose for fiscal 1971.

ADDITION AND DELETION OF COUNTRIES

Mr. SHRIVER. What are the new countries you are proposing for fiscal 1971? What countries will stop receiving volunteers this year?

Mr. BLATCHFORD. We are planning to have volunteers overseas or in training for a total of 61 countries by this coming August 31. In

fiscal year 1971 we would anticipate adding four new countries and departing from Malawi. This is a net change of three and the total number of countries at the end of fiscal 1971 would therefore be 64.

We are continually discussing program possibilities with interested governments and anticipate that in the course of the next year, four of those governments would request Peace Corps programs for fiscal 1971.

As far as termination of programs is concerned, we have terminated our programs in three countries this fiscal year—Tanzania, Libya, and Somalia, and all volunteers have left those countries.

SUPERVISION OF VOLUNTEERS

Mr. SHRIVER. According to the figures on page 45 it costs you $3,728 just to get a staff employee to his or her overseas post. What is the status of the reported shift of direct supervision of volunteers from the Peace Corps to the host countries? What effect would such a shift have on overseas staff costs?

Mr. BLATCHFORD. In the following countries the Africa region has replaced American staff with capable host country personnel, and therefore, the cost of transporting American staff has been reduced in exact terms:

Ethiopia	4 Ethiopians have replaced 4 Americans
Ghana	2 Ghanaians have replaced 2 Americans
Sierra Leone	1 Sierra Leonean has replaced 1 American
Lesotho	2 Basotho have replaced 3 Americans
Botswana	1 Botswana has replaced 1 American

It might also be worthwhile to draw the Representative's attention to the reduction in other costs this move causes, for example, the Peace Corps no longer provides housing, utilities, and American based salaries. Peace Corps/Micronesia had employed PTRs to provide direct support to volunteers working in education, TEFL, health, and fisheries. During the past year the government of the trust territory has assumed the responsibility for this support and supervision. In one instance they hired the Peace Corps PTR for fisheries to work for them and continue to provide support to the volunteers.

HOST COUNTRY CONTRIBUTIONS

Mr. SHRIVER. The last table in the justifications shows the host country contributions to be the lowest in the history of the Peace Corps. Why is this?

Mr. BLATCHFORD. Congressman Shriver, our host country contributions have decreased due to the declining number of volunteers overseas and, in particular, because of the decrease of volunteers in countries which had made large contributions. Libya, which made very substantial contributions, is an especially large factor in this. Aside from these several countries, the balance for all other countries has remained relatively level.

I think I can best illustrate this by including a table with this data in the record. With your permission, we will provide this.

(The information follows:)

[In thousands of dollars]

	Fiscal year 1969 actual	Fiscal year 1970 estimate
Total contributions	3,491	2,880
Less—		
Ethiopia	−335	−200
Tanzania	−54	(1)
Libya	−496	−117
Total for all other countries	2,606	2,563

[1] Less than $1,000.

RECRUITING PEOPLE WITH MORE EXPERIENCE

Mr. SHRIVER. In regard to your efforts to recruit people with higher technical skills, last year you said you would be talking with corporations and labor unions to get their cooperation. Have you had any meaningful results from those conversations?

Mr. BLATCHFORD. Yes, Mr. Shriver, there have been some very definite steps taken to meet the call from our host countries for volunteers with more technical experience. This, of course, will take a different kind of recruitment than we have been doing in the past. AFL–CIO President George Meany and I have agreed to a program in which building trades' union members can participate in overseas programs. The AFL–CIO by resolution has called on all its members to back these programs at the local level and to let members know that they may perform voluntary service with the Peace Corps, return to their jobs, and keep their seniority and pension rights. Some specific instances that come to mind are: Massachusetts and Pennsylvania State Labor Councils have passed resolutions endorsing Peace Corps efforts to recruit skilled workers and have offered to assist in recruitment; in New York State contacts have been made with locals of the machinists, carpenters, and diesel workers' unions; the International Brotherhood of Electrical Workers will grant leave of absence for volunteer service on the same basis as those entering military service; Victor Reuther of UAW–International has endorsed Peace Corps recruitment of skilled workers; and the General Electric Corp. has agreed to include a clause in their contracts which will allow employees a leave of absence for volunteer service and contacts have been made with Raytheon and Boeing.

Special skilled trades recruiters have been added to our regional recruitment offices and they are making personal contacts with various local labor leaders. These recruiters will coordinate campaigns at union conferences. One such campaign is being planned at the AFL–CIO conference to be held in mid-April.

Another category of skilled or experienced workers in demand is farmers. We are receiving excellent cooperation from universities throughout the Nation who are providing current listings of recent graduates in agriculture for direct mail campaigns. In early April we plan such a mailing of 500,000 letters to farmers in California, New York, Minnesota, Washington, Texas, Pennsylvania, Michigan, Connecticut, Massachusetts, Florida, and Oklahoma. These are farm-

ers who have worked from 100 to 1,000 acres. We are most optimistic about the results from this mailing which, of course, will not be known until the end of April.

The requirements for individuals with technical skills are steadily going up—our concern will be to fill these requirements while maintaining the essential volunteer spirit.

TERMINATION OF PROJECTS

Mr. SHRIVER. Last year you made a very commendable statement about the role of the Peace Corps in the recipient countries. You said, "A Peace Corps project which does not have an end in sight which will not be taken over by the local people in a few years time should not be started." Have you discontinued any projects because of this rationale during the past year? Please describe a few of your new projects, including information as to who will take these projects over in a few years in these countries.

Mr. BLATCHFORD. Projects which have accomplished their objectives and have, therefore, been phased out in the past year include: Korea High School English teacher, Malasia preservice teacher training, industrial arts, and secondary arts teaching; Malasia/Sarawak 4–H program; Thailand physical education; Liberia primary education and Ethiopia education; Brazil school lunch programs.

Projects which are expected to terminate with the service of volunteers presently in service or with the service of volunteers who will enter training before September 1970, include: Malaysia inservice teacher training, tuberculosis control; Sewarak/Malaysia secondary arts education, primary teacher training; Thailand malaria control; Chile reforestation; Bolivia tuberculosis control; Colombia rural community development; Venezuela classroom physical education; Bolivia sheep shearing; all classroom teaching in India; poultry extension in India/Punjab; agricultural extension in Ceylon; smallbox vaccination in Afghanistan; secondary education in Turkey.

Projects which have been substantially reduced and will probably phase out over the next 3 or 4 years include: Micronesia primary education; Sierra Leone, primary and secondary education; Kenya, land settlement.

It should be noted that the achievement of project objectives may lead to the phase-out of Peace Corps activity in that field, or may lead to host country requests for volunteers in a different but related activity. Volunteers in Bolivia whose principal job has been the introduction of mechanical shears to thousands of Bolivian farmers are being phased out. Volunteers with animal husbandry experience are now being requested to assist in the expansion and management of sheep herds whose economic value has been increased by the improved shearing practices. Similarly, the Chilean Government is phasing out reforestration volunteers but may continue to request volunteers to assist in wood technology and utilization, forest ecology, and forest fire control.

Mr. SHRIVER. You mentioned last year that you were making the first professional management study of the Peace Corps in order to tighten up the administration of it. What were the results of this study, and what actions have you taken?

Mr. BLATCHFORD. A professional management study of the Peace Corps organization was conducted by the management consulting firm of McKinsey & Company, Inc., during the summer of 1969.

The primary focus of the consultants was on the Peace Corps Washington (PC/W) organizational structure and methods of operations. In their initial surveys the consultants obtained a statement of agreed upon goals of the Peace Corps and identified eight essential functions that must be carried out effectively in order to successfully accomplish these goals.

The basic goals identified were:

> * * * to assist host countries in meeting, lastingly and effectively, their self-determined economic and social needs and, by this process, to foster cross-cultural understanding at the person-to-person level. To meet these goals, the Peace Corps will provide trained and motivated volunteers to work with and through host country nationals within the framework of their nation's own cultural values and on their own terms. And the Peace Corps will encourage returned volunteers to communicate and use their overseas experience effectively in this country.

It was recommended that in order to meet these goals the PC/W organization must perform the following eight functions effectively:

1. Recruit, select, and train sufficient numbers of qualified Peace Corps staff.
2. Assist country staffs in formulating sound projects.
3. Review and approve proposed projects.
4. Provide needed volunteer training.
5. Recruit, select, and assign volunteers for projects.
6. Provide technical support for ongoing projects.
7. Evaluate project and Peace Corps operating effectiveness.
8. Provide necessary administrative and financial support and liaison with other Government agencies to ensure adequate support for overseas operations.

The subsequent analysis of the organization and processes to carry out these functions led to the development of a revised organizational chart and some changes in the emphasis along with recommendations for process changes.

The consultants also recommended that the project approval process and project planning cycles needed streamlining, and Peace Corps/Washington needed to provide more positive assistance to overseas staff in the project formulation stages. They felt that the selection process in the Peace Corps was cumbersome, and led to impersonal treatment of applicants, and that this caused personnel attrition even before people got into training. They recommended improvement of both volunteer training and staff training.

In the area of supporting processes they identified several areas where functional responsibility was split between several offices, where decisions were being made at too high a level, and where an excessive amount of reporting was leading to the production of unnecessary paperwork.

To attack these problems the consultants recommended the consolidation of several offices, the creation of some new offices, and numerous procedural changes to improve our conduct of the eight essential functions. They also emphasized that we needed an upgrading of both overseas and Washington staff skills to carry out our responsibilities. This upgrading is to be achieved both by training of current staff and by improvements in our staff selection processes. The consultants also emphasized the need for an effective management information system to support the decisionmaking requirements of the headquarters staff.

We have implemnted many of the consultants' recommendations. Organizationally we have—

(*a*) Combined our volunteer recruiting and selection staffs into one office;

(*b*) Combined our financial management and other administrative staffs under one office;

(*c*) Established an office to coordinate and improve the management of our training functions;

(*d*) Revised our project review organization to emphasize support of project formulations, leaving project approval to the Director;

(*e*) Rearranged our project review, technical support and evaluation functions in order to provide more relevant support and to input the results of evaluations more directly into the project formulation process; and

(*f*) Consolidated the processing and management of all staff and volunteer travel and transportation under one office, combined the staff and volunter records and statistical reporting functions, and generally aimed toward making one unit responsible for any given function.

In the course of their work the consultants focused on several areas where expanded or improved use of automatic data processing methods and techniques were appropriate. Many of these areas were being programed at the time and emphasis of McKinsey & Co., Inc., added impetus to our efforts, particularly in the areas of selection processing, financial management, and volunteer and staff record keeping and statistical reporting.

We are presently developing a management information system which will be in operation this fall. The overall study by McKinsey & Co. has resulted in better management control, a cutback of 15 percent in personnel, and a precise definition of the Peace Corps' management role in the 1970's.

Mr. PASSMAN. The committee will now recess. Thank you, gentlemen.

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