FOREIGN ASSISTANCE AND RELATED AGENCIES APPROPRIATIONS FOR 1972

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

NINETY-SECOND CONGRESS

FIRST SESSION

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PART 1

MILITARY ASSISTANCE
RELATED AGENCIES:

Cuban Refugees
Export-Import Bank of the United States
Inter-American Development Bank
Inter-American Social Development Institute
Migration and Refugee Assistance
Overseas Private Investment Corporation
Peace Corps
Ryukyu Islands

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FOREIGN ASSISTANCE AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1972

WEDNESDAY, MARCH 24, 1971

MILITARY ASSISTANCE PROGRAM

WITNESSES

HON. MELVIN R. LAIRD, SECRETARY OF DEFENSE
ADM. THOMAS H. MOORER, USN, CHAIRMAN OF THE JOINT CHIEFS OF STAFF
LT. GEN. ROBERT H. WARREN, USAF, 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, SPECIAL ASSISTANT FOR CONGRESSIONAL RELATIONS (MA&S), OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE FOR INTERNATIONAL SECURITY AFFAIRS
CAPT. ANDREW J. VALENTINE, USN, MILITARY 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
GEORGE GOLDSTEIN, ACTING COMPTROLLER, MILITARY ASSISTANCE AND SALES, OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (ISA)
COL. FRANK E. BURDELL, JR., USA, OFFICE, SPECIAL ASSISTANT FOR CONGRESSIONAL RELATIONS (MA&S), OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (ISA)

Program and Financing (in thousands of dollars)

Identification code 04-09-1080-0-1-057	Budget plan (amounts for military assistance actions programed)			Obligations		
	1970 actual	1971 estimate	1972 estimate	1970 actual	1971 estimate	1972 estimate
Program by activities:						
Grant aid operations:						
Reservations for requirements ordered from U.S. military services (22 U.S.C. 1819):						
1. Aircraft	61,475	94,800	76,200	60,234	91,400	73,300
2. Ships	16,789	23,700	23,500	13,217	21,600	22,600
3. Tanks, other vehicles, and weapons	35,427	75,000	70,400	33,190	73,800	67,700
4. Ammunition	25,223	180,000	170,000	20,277	178,000	163,500
5. Missiles	6,246	5,500	5,900	6,179	4,900	5,600
6. Electronic equipment	22,664	42,900	41,000	21,782	40,400	39,500
7. Other	109,204	213,935	199,300	98,152	208,665	191,600
Subtotal	277,028	636,135	586,300	253,034	618,765	563,800
Obligations for requirements other than through reservations:						
9. Offshore procurement	2,059	1,030	2,500	1,160	1,030	2,500
10. Supply operations	59,310	85,670	90,000	59,946	85,670	90,000
11. Training	31,585	30,700	32,000	28,190	30,700	32,000
12. Administration	17,801	17,700	15,400	16,953	17,700	15,400
13. Contributions for International Military Headquarters	597	----------	----------	----------	----------	----------
14. Other activities	190	3,800	5,300	3,797	3,800	5,300
Adjustment of prior year obligations	----------	----------	----------	−5,896	----------	----------
Subtotal	111,532	138,900	145,200	104,150	138,900	145,200
10 Total obligations/reservations	388,560	775,035	731,500	357,183	757,665	709,000
Financing:						
14 Receipts and reimbursements from: Non-Federal Sources (22 U.S.C. 2355)	−4,451	−4,000	−4,000	−4,451	−4,000	−4,000
21 Unobligated balance available, start of year	−5,145	−3,665	----------	−5,145	−3,665	----------
22 Unobligated balance transferred from other accounts	−1,000	----------	----------	−1,000	----------	----------
Reprograming from prior year budget plans	−31,377	−17,370	−22,500	----------	----------	----------
24 Unobligated balance available, end of year	3,665	----------	----------	3,665	----------	----------
Budget authority	**350,252**	**750,000**	**705,000**	**350,252**	**750,000**	**705,000**
Budget authority:						
40 Appropriation	350,000	690,000	705,000	350,000	690,000	705,000
40 Pay increase (Public Law 91-305)	252	----------	----------	252	----------	----------
42 Transferred from other accounts	----------	60,000	----------	----------	60,000	----------
43 **Appropriation (adjusted)**	**350,252**	**750,000**	**705,000**	**350,252**	**750,000**	**705,000**
Relation of obligations to outlays:						
71 Obligations incurred, net				352,732	753,665	705,000
72 Obligated balance, start of year				739,029	543,401	661,066
74 Obligated balance, end of year				−543,401	−661,066	−691,066
90 Outlays				548,360	636,000	675,000

Object Classification (in thousands of dollars)

		1970 actual	1971 est.	1972 est.
	Grant aid operations:			
	Reservations:			
25.0	Other services	2,152	2,800	2,500
26.0	Supplies and materials	111,440	282,330	227,300
31.0	Equipment	139,442	333,635	334,000
	Total, grant aid operations	253,034	618,765	563,800
	Obligations for requirements other than through reservations:			
	Personnel compensation:			
11.1	Permanent positions	10,060	10,045	9,668
11.3	Positions other than permanent	5	27	20
11.5	Other personnel compensation	180	318	338
	Total personnel compensation	10,245	10,390	10,026
	Personnel benefits:			
12.1	Civilian employees	867	906	872
12.2	Military personnel	2,389	2,102	39
21.0	Travel and transportation of persons	10,399	9,981	12,596
22.0	Transportation of things	28,094	49,566	45,340
23.0	Rent, communications, and utilities	2,596	2,478	2,409
24.0	Printing and reproduction	70	55	55
25.0	Other services	44,840	59,865	68,607
26.0	Supplies and materials	5,189	2,753	4,573
31.0	Equipment	−540	804	683
	Total obligations for requirements other than through reservations	104,150	138,900	145,200
99.0	Total obligations/reservations	357,183	757,665	709,000
	Obligations are distributed as follows:			
	Secretary of Defense	2,448	2,970	2,603
	Army	207,717	522,415	471,622
	Navy	43,995	62,500	62,500
	Air Force	99,612	166,155	168,500
	State	3,411	3,625	3,775

Personnel Summary

Total number of permanent positions	1,164	1,054	1,016
Full-time equivalent of other positions	1	1	1
Average number of all employees	1,130	1,040	1,009
Average GS grade	8.3	8.6	8.5
Average GS salary	$12,049	$12,538	$12,513
Average salary, positions authorized by 22 U.S.C. 2151	$32,206	$32,555	$33,161
Average grade, grades established by the Secretary of Defense	2.0	2.0	2.0
Average salary, grades established by the Secretary of Defense	$26,358	$27,237	$28,116
Average salary of ungraded positions	$3,380	$3,595	$3,866

Military Credit Sales Program

Program and Financing (in thousands of dollars)

Identification code 04-09-1082-0-1-057	1970 actual	1971 est.	1972 est.
Program by activities:			
Credits and guaranties:			
1. Long-term credit agreements	70,000	250,000	582,000
Portion financed privately	---	67,000	96,000
Portion financed directly	70,000	183,000	486,000
2. Guaranty of private financing	---	17,000	24,000
10 Total obligations (object class 33.0)	70,000	200,000	510,000
Financing:			
40 **Budget authority (appropriation)**	**70,000**	**200,000**	**510,000**
Relation of obligations to outlays:			
71 Obligations incurred, net	70,000	200,000	510,000
72 Obligated balance, start of year	222,215	199,070	259,070
74 Obligated balance, end of year	−199,070	−259,070	−479,070
77 Adjustments in expired accounts	−629	---	---
90 Outlays	92,516	140,000	290,000

Mr. PASSMAN. The committee will be in order.

This is the first session of the Foreign Operations Subcommittee on Appropriations.

I would first like to introduce and welcome to the committee our new members, Mr. Roybal, Mr. Hathaway, Mr. Galifianakis, and Mr. McEwen.

Mr. Roybal brings a lot of experience because he came from the Foreign Affairs Committee. He is about as familiar with foreign aid as other members of this committee.

We are starting off on a session that may take about 300 hours to complete. We know that you will attend all the sessions that you possibly can. We will consider this afternoon the budget requests for the military assistance program for fiscal year 1972.

We have as the first witnesses the Hon. Melvin R. Laird, Secretary of Defense; Adm. Thomas H. Moorer, U.S. Navy, Chairman of the Joint Chiefs of Staff, and Lt. Gen. Robert H. Warren, Deputy Assistant Secretary of Defense for Military Assistance and Sales, and other supporting witnesses whose names are set out above.

Welcome, Mr. Secretary. We are happy to have you appear before the committee as the No. 1 witness.

SUBCOMMITTEE PROCEDURE

The preliminary meeting called earlier had to be canceled for obvious reasons, but we should state for the record that under the rules—and I certainly support them—the new rules of the House, each member of the subcommittee will consume 5 minutes in questions and answers and after each member of the subcommittee has had an opportunity to interrogate for 5 minutes, then we will resort to the old system of permitting each member of the committee to consume all the time necessary.

We will alternate between the Democratic side and the Republican side. Some committees operate differently, but that is the way we have always operated, Democrat to Republican, until we go around the table.

After we have concluded the 5-minute routine then, of course, we will get into the questions and answers, each member consuming all the time that he feels necessary for him to make the record if he wants. If that is acceptable to the committee, we shall proceed.

Mr. Secretary, we are delighted to have you before the committee.

Mr. ROONEY. Does this constitute the adoption of the rules of the subcommittee?

Mr. PASSMAN. They have already been approved by the full committee. We just merely discuss what the rules are and we have to follow the rules, as I understand it.

Mr. ROONEY. I thought maybe you needed a motion to approve the rules of the last Congress as the rules of the subcommittee in this Congress.

Mr. PASSMAN. We would like to have that motion and if the gentleman will offer that motion, we will consider it.

Mr. ROONEY. I will. I so move, Mr. Chairman.

Mr. SHRIVER. I second.

Mr. PASSMAN. Any opposed?

Mr. ROYBAL. That is, of course, following the rules to the letter of the law.

Mr. PASSMAN. It embodies the amended rules.

Mr. ROYBAL. I have no objection.

Mr. PASSMAN. Then it is unanimous.

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

Secretary LAIRD. Yes, sir.

Mr. PASSMAN. We will be glad to hear from you at this time.

STATEMENT OF THE SECRETARY OF DEFENSE

Secretary LAIRD. Mr. Chairman, I am again pleased and privileged to appear before this committee to discuss two essential instruments of national security and foreign policy—the military assistance and foreign military sales portions of the security assistance program.

The President emphasized the importance of military assistance and sales in his foreign policy message to this Congress. He underscored the fact that these programs are keyed to the fulfillment of the strategy for peace through partnership. I would emphasize that they form a crucial element in our strategy of realistic deterrence.

President Nixon also pointed out the critical nature of this year's program to the introduction of an era of burden-sharing among partners, and he related this entire effort to the manpower reality that we, in Defense, are facing on a daily basis as our military forces are reduced. President Nixon wrote:

> Our materiel and training can enable nations whose security is important to us to deal with threats against them and to help each other to do so.
>
> But it is not simply a matter of helping friends and allies to do more for themselves. Particularly in the areas of the world where we are reducing our manpower, we must make resources available to help them complete the transition with us. In some cases, this will require substantial assistance during the period of adjustment. This is central to our new approach to American foreign policy in the 1970's.

As I pointed out to you last year, many of our friends and allies cannot assume the greatly increased responsibilities they must undertake unless we continue to help them acquire the needed equipment and training. Resources and technical capabilities which they lack—as well as manpower, will, and desire, which they can provide—are required if such friends and allies are to assume greater responsibility for their own defense. If we are successful in fostering greater self-reliance on the part of other nations through security assistance, I am confident that we will be able to continue to reduce the size of our military forces abroad without leaving a potentially dangerous vacuum.

In the long term, our programs are designed to accomplish two things: to ease the burden on the United States in terms of manpower and money and to deter conflict, reduce the risk of conflict occurring, or increase the likelihood of being able to keep conflict at the lowest possible levels of intensity.

The President announced that this year he would present to the Congress the design of a new international security assistance program. He promised that it would be more closely geared to the purposes of the Nixon Doctrine. Let me quote the three key points of that new effort as stated by the President:

It will clearly separate out our security assistance from other forms of assistance to enhance the integrity and effectiveness of each.

It will pull together all types of security assistance into one coherent program.

It will place increasing emphasis on fostering the self-reliance of those with whom we are engaged in a cooperative effort.

When I announced our new strategy for the seventies—the strategy of realistic deterrence—I sought to be very specific about the role of allied and friendly nations. I reviewed how the key elements of the President's strategy for peace during fiscal year 1970 and 1971 have emerged into our strategy of realistic deterrence. Let me review some of those elements with you to emphasize the essentiality and criticality to that strategy of both military assistance and the foreign military credit sales.

. . . a strong conventional capability buttressed by increased burden sharing and improved defense capabilities of other Free World nations;

. . . smaller U.S. active forces, with great emphasis to be given to their readiness and effectiveness, including modernization;

. . . a re-emphasis on maintaining and using our technological superiority;

. . . increased international security assistance for the defense needs and roles of other Free World nations; and

. . . a new approach to U.S. military manpower based on the goal of Zero Draft and an All-Volunteer active force with increased reliance on National Guard and Reserve forces.

I think that these elements of the strategy clearly represent what this administration is trying to do. With the appropriate support of the Congress—as we move toward the President's goal of peace in the seventies—the deterrent to localized conflict increasingly will be provided by allies who themselves have, or will have, a capability and national will to defend themselves.

I think it especially appropriate today to review the current mechanisms of managerial control and coordination that the administration exercises to insure that both grant and credit sales are properly managed.

The primary consideration, of course, is the Presidential role and responsibilities with respect to the entire Security Assistance Program. At the Presidential level, the major mechanisms are the preparation of the annual budget and the Presidential decisions taken in the National Security Council System. The President reviews and decides the worldwide program levels in the preparation of the budget. He bases these decisions on requests of State and Defense, including the Joint Chiefs of Staff, and separate recommendations of the Office of Management and Budget. Throughout the fiscal year the President continues to make major decisions revising and amending the program in light of international developments; on the basis of reviews and recommendations of the NSC and on an *ad hoc* basis in light of specific recommendations made by State and Defense.

Our own departmental control procedures presently can be summarized as follows:

First, the annual program and budget submissions from the field are jointly reviewed by Defense and State.

Second, the annual budget requests to the President, following this review, are jointly submitted by both Departments. In event of major disagreements, State and Defense usually submit their views in separate memoranda for Presidential review.

Third, Defense and State prepare each year a classified joint

memorandum which specifies program levels and major program content by country and region and sets our major policy guidelines for grant military assistance and foreign military sales credits; this document constitutes the basic planning guidance for all elements of the Executive Branch.

Fourth, the Departments of Defense, State and Treasury have jointly issued comprehensive guidelines for both governmental and commercial sales of military equipment through a document entitled "U.S. Government Policy and Responsibility for Military Export Sales."

Fifth, commercial sales of most types of military equipment must be individually licensed by the Department of State.

Sixth, a control group organized in 1969 and composed of representatives from Defense and State provides guidance for the allocation of military stocks declared excess to the needs of the Military Services by the Defense Department.

Seventh, the use of Food for Peace counterpart funds for defense purposes is regulated by agreements which are negotiated by the State Department with the foreign governments concerned after consideration by State, AID, Defense, and Agriculture.

Eighth and finally, a committee chaired by AID, on which both State and Defense are represented, has developed techniques to measure each country's military expenditures in comparison with the other countries in the region on the basis of the proportion of GNP, national budget, and total imports attributable to defense costs. This particular committee provides reports of its findings to Congress on a regular basis.

This is not to suggest that we cannot improve on our procedures and organization with respect to these programs. We can always improve. As I indicated in my Defense report—and as you probably well know—within the Administration a comprehensive review is being made of the procedures and organization for the planning and administration of all elements of the Security Assistance Program including military assistance and foreign military sales as well as of military assistance for the three Southeast Asian countries, which is service-funded.

I am confident we will be able to revamp some of our procedures and thereby improve substantially the management of these increasingly important Security Assistance Programs.

Assertions which have been made that these programs are out of control are completely unfounded. I strongly oppose proposed legislation to shift the entire responsibility for security assistance to the State Department and to phase out the grant and sales program in the near future. We must continue our efforts to strengthen these programs, not inhibit or cripple them.

Turning now to the highlights of this year's programs, I think it is well that we all have a common understanding of the entire program of military and economic assistance. From an overall standpoint, the Security Assistance Program for fiscal year 1972 will total $5.2 billion. Let me describe how this large effort breaks out. To begin with, $2.2 billion of the total of the $5.2 billion programed for security assistance is funded under International Security Assistance Legislation. This money is programed as follows:

	Billion
Mainland Southeast Asia Economic programs now funded under the Foreign Assistance Act (FAA)	$0.8
Economic contingency funds, public safety programs, U.N. Cyprus Force, all now funded under the FAA	.1
Military grant assistance now funded under FAA	.7
Foreign military credits now under authority of the Foreign Military Sales Act, excluding Israel	.3
Military credits for Israel	

In addition, military assistance that is service-funded is programed as follows:

	Billions
South Vietnam and Korean forces in Vietnam	
Laos	
Thailand	

The following programs related to security assistance account for the balance:

Excess military equipment (legal value) and ship loan	.2
Public Law 480	.3
Export-Import Bank	.3
	.8
Grand total	5.2

This year, in support of military assistance, we are requesting $731.5 million (TOA). Our aggregate program ceiling for Foreign Military Credit Sales will total $582 million. After applying recoupments and reimbursements and private financing, the new obligation authority for fiscal year 1972 will total $705 million for military assistance and $510 million for the military credit sales (Total NOA: $1.215 B).

By comparison, last year we requested a total of $690 million in new funds for military assistance and $272.5 million for credit sales. Originally, we requested $350 million for military assistance funds. As you know, a supplemental request was made for $340 million, including restoration of $67 million; $85 million more for Cambodia; $150 million for modernization of ROK forces; $30 million for Jordan, $5 million for Lebanon and three additional million for Indonesia. We also requested $500 million to finance military credit sales to Israel for the fiscal year 1971 period, authorized under section 501 of the Military Procurment Act.

I am hopeful that this year we will be able to avoid a supplemental request and that the total new obligational authority I cited earlier ($1.215 B) for our fiscal year 1972 program will be sufficient. Of course, I cannot rule out presidential determinations that may develop in the coming months that may require additional authority in either the military assistance or military credit sales.

In any event, I want you to know that I have completely satisfied myself that our requests this year represent the best possible use of available resources. They will go far to develop and promote specific country military assistance and sales objectives and—of even greater import—they will facilitate the fuller implementation of the Nixon doctrine and the Strategy of Realistic Deterrence. Now, Admiral Moorer and General Warren will be able to address, in detail, specific aspects of the individual country programs as well as the nonregional elements of the proposed program. I do want to emphasize certain aspects of this year's program for particular recipient countries. As in the

past, the major portion of our program is for only a handful of countries.

In the military assistance program, 89 percent of the total obligational authority requested is designated for the following seven countries:

Cambodia ———
Korea ———
Jordan ———
Turkey ———
Indonesia ———
China ———
Greece ———

These countries are examples of the Nixon Doctrine and the Strategy of Realistic Deterrence in action. They have the will and desire to be more self-reliant. They have the manpower and the prospect of political stability to utilize our resources.

With respect to foreign military credit sales, I see an equally critical need for authorization and appropriation of funds. As I indicated last year, the provision of credit to certain, carefully selected developing countries helps them make approved purchases without impeding their overall growth. By so doing, it also eases the transition from grant aid and thereby lightens the burden on the U.S. taxpayer of maintaining an adequate total defense posture and keeping our commitments.

In terms of foreign military credit sales, Israel with ——— of the total fiscal year 1972 program. Latin America ($70 million), Greece ———, China ———, and Saudi Arabia ——— make up the remaining countries whose combined participation in the program, together with Israel, account for approximately 88 percent of the total obligational authorty requested.

I would emphasize the obvious; that is, the Foreign Military Sales Act which authorized both cash and credit sales is not only an important instrument of U.S. policy, but it is now more important than ever before. As I have stated, properly and effectively used, it serves a unique purpose by relieving some of the pressure on the limited funds available for grant military assistance. It is my hope that it will eventually completely replace such funds, even if offers of concessionary terms of credit are necessary to replace grant aid.

We have not wavered in our careful control of all foreign military sales transactions, whether or not they are cash or credit. Nor do we intend to promote, through this or any program, regional arms races which threaten peace and stability. Our goal is related to the promotion of the President's Strategy for Peace. The $510 million (NOA) we are requesting for military credit sales should be viewed as an investment in that strategy.

This request for obligational authority for foreign military credit sales and the $705.0 million (NOA) for military assistance are fully in consonance with the national interest. Perhaps the President himself has provided the most appropriate summary for my statement today when he noted in his recent Foreign Policy Message:

> Security assistance has been an important aspect of U.S. foreign policy for nearly 25 years. Today it is more important than ever, for without it our effort to share responsibilities more widely with our friends and allies cannot succeed. This is a program for the 1970's, building on partnership in the security sphere

and responding to new conditions and the lessons of recent history. We look to the day when our friends and allies are free from threats to their security and able to concentrate their energies and resources—and our assistance—on the constructive tasks of economic and social development.

Accordingly, Mr. Chairman, I hope that the words of the President, my presentation and the answers to any questions you or the committee might have, will lead to your recommendation that our requests be approved.

Mr. PASSMAN. Thank you very much, Mr. Secretary.

I assume General Warren and Admiral Moorer will be available for as many days as are necessary to get the answers and make a record?

Secretary LAIRD. I know of the great respect this committee has for General Warren's capabilities. I have even greater respect and admiration for his capabilities and I am sure that he will be able to fulfill the needs of this committee.

Mr. PASSMAN. I certainly share your views. I think I have clearly indicated that in the past. General Warren is very apt and usually he has the answer; for that matter, he has good answers.

I will dispense with asking any questions myself at this time and I will pick up later.

At this time I yield 5 minutes to Mr. Rooney.

CREDITS FOR ISRAEL

Mr. ROONEY. Mr. Secretary, on page 11 of your prepared statement you refer to the following:

> In terms of foreign military credit sales, Israel with ——— of the total fiscal year 1972 program.

What is the amount in the current fiscal year?

Secretary LAIRD. $500 million.

Mr. ROONEY. This is a reduction from $500 million to ———, isn't it?

Secretary LAIRD. It is a reduction in the amount available this year, but I think it should be understood, Mr. Chairman and members of the committee, last year it was necessary for us to pick up the credit from 1970 because there was no foreign military sales credit available for fiscal 1970, so we picked up 2 years in fiscal 1971. For ——— that we agreed to sell, back in 1968, it was necessary for us to finance those to a large extent during the present fiscal year so that the total overall program for Israel as of January, 1971, was a total of ——— million; $500 million of that was made available in fiscal year 1971.

What I am saying, Mr. Rooney, is that we did have to——

Mr. ROONEY. Have you reached the fact that the program has been reduced from $500 million to———.

Secretary LAIRD. We are comparing a 2-year program with a 1-year program.

NIXON DOCTRINE SUMMARIZED

Mr. ROONEY. At page 10 of your statement you refer to those seven countries as being examples of the Nixon Doctrine and the strategy of realistic deterrence in action. For the record, what is the Nixon Doctrine?

Secretary LAIRD. The Nixon doctrine is based upon three very important principles of President Nixon's Strategy for Peace. First,

on partnership; second, on strength; and third, on the willingness to negotiate during the decade of the 1970's.

Let me give you the three specific elements of the Nixon doctrine for the record.

(The information follows:)

THE NIXON DOCTRINE

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.

Secretary LAIRD. The partnership aspects of the Nixon doctrine are borne out by this military assistance program—to develop within the partnership framework the strength of these particular countries, along with our other friends and allies. These particular countries are in a position where they need military assistance to develop the necessary capabilities and, in some of them, to meet obligations that we share with them under various arrangements.

Now, Cambodia is an exception in as much as we do not have a direct treaty commitment or a treaty obligation. Last year we presented a military assistance program to the Congress showing the application of the Nixon Doctrine and designed toward developing strength in that country—a military strength in that country—so that they could defend themselves. Congress approved our recommendations and Cambodia has developed a force strength of over 200,000 men and women in their military force. They have come from some 40,000 to over 200,000. I think this is a good example of the Nixon Doctrine at work.

This military manpower is provided at a very reasonable cost as far as the United States is concerned, and I believe that it is better to rely on their manpower than to be in a position where we would have to rely upon American manpower in the future.

I could take each of these countries and show the application of the Nixon Doctrine in terms of partnership and strength. Partnership and strength are the most important parts of this, but the third pillar of the Nixon Doctrine—a willingness to negotiate—is being applied in the SALT talks; it is being applied as far as the four-power talks are concerned; it is being applied as far as Paris is concerned. It is also an example of our willingness to go forward and discuss mutual and balanced force reductions with the Warsaw Pact countries. We are negotiating in many areas and this is what I refer to as one of the three pillars of the Nixon Doctrine.

STRATEGY OF REALISTIC DETERRENCE

Mr. ROONEY. What is the Strategy of Realistic Deterrence?

Secretary LAIRD. Mr. Chairman and members of the committee, during the time period of the 1950's, the overall military strategy of our country was sometimes referred to as massive retaliation. During this particular time period we had a very marked strategic superiority

over the Soviet Union. Our strategy at that time did give us a means of preventing war, but it was based upon a great superiority which this country had from the standpoint of nuclear weapons at that particular time.

In the time period of the 1960's, the so-called Kennedy-Johnson era—the strategy of this country was referred to by many as a stragety of flexible response. We were in a period of time when the Soviet Union was certainly building up its military forces. It made vast improvements in the strategic field, starting with their accelerated deployments in 1965, but it was felt that we had an option during that period of time, where we did have superior forces. But the Soviet Union was reaching toward a point of parity, particularly in the strategic field.

We did have a degree of flexibility during that time period as far as the use of conventional, tactical nuclear, and strategic weapons are concerned. One could point to 1962, when the Cuban missile crisis came up. Even during that period of time the United States had a vastly superior force as far as its strategic weapons were concerned. We had a 5 to 1 superiority as far as strategic weapons are concerned. There was a great deal more flexibility as far as the use of conventional, tactical, nuclear, and strategic weapons were concerned during that period of time.

As we approach this period of the 1970's, we have to maintain a credible deterrent in all three areas because we have reached the point where we have parity as far as the strategic weapons are concerned. So in order for us to be credible in this area, we must maintain a sufficient conventional deterrent, a tactical nuclear deterrent, and a strategic nuclear deterrent. But in this period of the 1970's there are certain other realities that we must face up to.

We have a manpower reality, which exists not only in the United States, but which also has implications in all of the free world. With this manpower reality, we must face up to using manpower as far as our conventional deterrent is concerned, in a very effective and realistic manner. Sometimes this will mean that the manpower of our allies, as we look at the total forces needed to maintain a conventional deterrent, is taken into consideration when we look at the degree of sufficiency or the degree of credibility that is necessary for us to maintain this conventional type deterrent.

Another reality we must fact up to is the fiscal reality. There can be only so much of our resources devoted to national security planning and defense purposes. Defense spending was up to a point of being 9.5 percent of our gross national product in fiscal 1968. We must, it seems to me, to be realistic, limit the total amount of our overall resources during the period of the seventies to not more than 7 percent of our gross national product for defense. So this strategy of realistic deterrence does take into consideration the fiscal realities that we must face during the 1970's.

It takes into consideration the strategic reality. These are all necessary in order to maintain a credible deterrent, to prevent war, and to maintain peace during this period of time.

In my Defense Report to the Congress, Mr. Rooney—I spent quite a bit of time on that report and I would like to make a copy of that report available to each member of this committee—I have an un-

classified version of 191 pages. The classified version is about 261 pages. In that report I discuss these strategies and why the strategies must change. If you want to call it a strategy of credible deterrence—I think "Realistic Deterrence" is better because it takes into account the realities we must face during the 1970's.

Mr. PASSMAN. Without objection, the entire report will be inserted in the record at this point so that not only our members, but members in the full committee, may see it.

Mr. ROONEY. You mean the unclassified version?

Mr. PASSMAN. The nonclassified.

Secretary LAIRD. That is what I alluded to there, Mr. Rooney. I would be glad to discuss it further.

(The report was submitted to the committee.)

Mr. PASSMAN. Is it the desire of the gentleman from New York to defer his other questions until we get into the regular second-round around the table?

Mr. ROONEY. Surely. The floor is yours now to do with as you please.

Mr. PASSMAN. No; it is not that way. We want to give a long 5 minutes, but we must go around the table and I knew it was the gentleman's desire to allow everyone to question.

I yield to the distinguished gentleman from Kansas.

Mr. SHRIVER. Thank you, Mr. Chairman.

Mr. Secretary, those of us who served with you on the Appropriations Committee appreciate your leadership, especially in connection with the important matter of the security of our nation. We are glad to have you with us today. I want to congratulate you for your concise presentation of what has become a very complex problem.

Will the table on page 8 of your statement appear in the hearings, or is it classified?

Secretary LAIRD. On page 8, portions of that particular table are classified.

FOOD FOR PEACE FUNDS FOR THE COMMON DEFENSE

Mr. SHRIVER. In that same table you mentioned the $300,000 in food for peace counterpart funds which will be used for military equipment. This program has been on the books for years. Would you explain how it works and what safeguards will be used to see that it is not abused? I have read reports of some abuse of it recently.

Secretary LAIRD. Of course, this program is run by the State Department, as far as the administration of the program is concerned. It is a State Department-administered program and is not administered by the Department of Defense.

Mr. SHRIVER. It is mixed up in several departments. It is in the appropriation for the Agriculture Department.

Secretary LAIRD. The program is actually administered, though, by the Department of State. I would be glad, if I could, to put an explanation in the record at this point. I can refer to the manner in which some funds are used to purchase military equipment.

Mr. SHRIVER. That is what I have reference to.

Secretary LAIRD. That does, of course, involve us.

Mr. SHRIVER. Put it in the record then.

(The information follows:)

Legislative Basis and Administrative Responsibility for Grants Under Section 104(c), Public Law 480

A. LEGISLATIVE BASIS FOR 104(c) GRANTS

The full title of Public Law 480, commonly referred to as the Food for Peace Act, is the Agricultural Trade Development and Assistance Act. First approved by the Congress in 1954, the act has been amended and extended on several occasions since, the most recent being the last Congress which extended the act for an additional 3 years or until December 31, 1973. Under title I of the act, the President is authorized to negotiate and carry out agreements with friendly countries for the sales of U.S. agricultural commodities for dollars on credit terms or for local currencies. The act further requires, however, that steps be taken to assure a progressive transition from sales for foreign currencies to sales for dollars or convertible loan currencies, the transition to be completed by December 31, 1971.

Commodities provided under title I sales agreements when resold to consumers in recipient countries generate local currencies. The United States acquires title to local currencies in connection with Public Law 480 sales agreements either as payment for the commodities at time of delivery where the sale is for local currencies, or as a down payment at time of delivery in connection with credit sales. Sales agreements include provisions covering the uses to which these local currencies may be put.

Even in the case of credit sales where title I local currencies arising from the sale of commodities to consumers remain with the recipient government, the agreements contain provisions as to how these currencies are to be utilized. The uses of U.S.-owned local currencies authorized by law include payment of U.S. obligations abroad, for carrying out various programs of U.S. Government agencies including market development, for the purchase of goods and services for other friendly countries, for loans to U.S. business firms abroad, for loans or grants back to recipient governments to finance economic development including expanded food production, and under 104(c) of Public Law 480 as grants to support the recipient country's defense budget. When Public Law 480 was first enacted in 1954, 104(c) read as follows:

> "(c) to provide military equipment, materials, facilities, and services for the common defense." [Public Law 480, 83d Cong. (S. 2475), 68 Stat. 454, 1954]

In 1964 the subsection was amended and now reads: "to procure equipment, materials, facilities, and services for the common defense including internal security."

Although the purpose of 104(c) is indicated to be "for the common defense" there has been no expression by the Congress that the use of foreign currencies under 104(c) must be conditioned on a joint or allied military program between the United States and the recipient country of Public Law 480 sales. The Foreign Assistance Act does, however, contain a section which requires that countries receiving military assistance from the United States and with which the United States has also negotiated a Public Law 480 sales agreement to agree to permit the use for 104(c) purposes of foreign currencies accruing under such Public Law 480 sales agreements. The obvious purpose of this provision is to assure that local currencies are used for 104(c) purposes in preference to appropriated dollars. There is no mandatory requirement that the foreign currencies involved be used for such purposes, however. A more detailed discussion of the legislative basis for grants under section 104(c) is found in attachment A.

B. UTILIZATION OF U.S.-OWNED LOCAL CURRENCIES GENERATED UNDER PUBLIC LAW 480 SALES AGREEMENTS

Since the inception of Public Law 480 about 25 percent of the local currencies accruing to the United States under Public Law 480 sales have been used to pay U.S. obligations abroad and to support other U.S. programs authorized by Public Law 480. These have contributed substantially to dollar savings and improving the U.S. balance-of-payments situation.

The bulk of the remainder has been either loaned or given back to the recipient countries, primarily to support economic development but in some instances to support the recipient country's defense budget as authorized by section 104(c) of Public Law 480. In such cases these local currencies are used by the recipient

country for the payment of salaries of military personnel, the purchase of materials, facilities, and services and other local currency defense budget costs. These currencies cannot be used to import arms which require foreign exchange.

The number of countries with which the United States has Public Law 480 agreements under which the local currencies generated have been used to support military budgets is very limited. (See table attached.) In fact, since 1965 this type of agreement has been largely confined to Korea and Vietnam. Of the $693 million equivalent in local currencies allocated for 104(c) grants during fiscal years 1965–70, 96 percent was for Korea and Vietnam. In both these countries, section 104(c) grants constitute only one subsidiary element of substantial programs of U.S. assistance under the Foreign Assistance Act and Public Law 480. Given the sizable requirements for resources for the military and the resulting heavy burden on government budgets, it has been agreed at high levels in both the United States and the recipient country governments that the allocation of a portion of Public Law 480 local currencies for defense budget purposes fills a high-priority need.

Since Public Law 480 was first enacted in 1954, less than 12 percent of the local currencies under title I sales for local currency have been allocated for military budget support. Nearly 60 percent has been allocated as loans or grants back to the recipient countries for economic development. Virtually every aspect of economic development has been helped by these funds in one country or another, including agriculture, roads and other transportation, housing, education, electrification, and community development.

Public Law 480 has been administered in accordance with the provisions of the law as established by the Congress, and the activities undertaken have been fully reported to the Congress. The President is required by law to submit to the Congress an annual report on Public Law 480 operations, the latest being for 1969. These reports record the uses made of U.S.-owned local currencies including 104(c) purposes.

C. DEVELOPMENT OF PUBLIC LAW 480 SALES AGREEMENTS INCLUDING SECTION 104(c) LOCAL CURRENCY USES

Public Law 480 programing begins with the development of the overall budget for foreign assistance. Estimated Public Law 480 agricultural commodity requirements for the budget year, together with recommendations for terms of sales and for allocation of recipient country payments in the case of sales for local currency, are prepared in the field by country teams and submitted, as part of the U.S. foreign assistance package, by ambassadors to Washington in the country field submissions. Proposed country assistance programs, including Public Law 480, are then reviewed at a senior level in AID/W in consultation with other agencies (OMB, State, USDA, DOD, Treasury, Commerce). The worldwide Public Law 480 budget is then submitted to OMB as a part of the USDA budget. At the request of OMB, estimates of country requirements for Public Law 480 agricultural commodities are also submitted by AID, with State concurrence in connection with the overall AID submission for the President's budget.

Within the framework of the Public Law 480 budget, thus established by OMB, proposed Public Law 480 sales agreements are developed by U.S. country missions on the basis of the host government's request. These proposals include commodity composition, payment terms, recommendations as to the allocation of local currency payments, among U.S. uses and various country uses including 104(c) grants, where appropriate. In Washington these proposed programs are reviewed and approved by the Public Law 480 Inter-Agency Staff Committee (ISC) chaired by USDA. Other members of the ISC are OMB, State/AID, Treasury, Commerce and DOD. The State/AID ISC representative presents to the ISC the the coordinated State/AID position with respect to the proposed sales agreement. In developing the State/AID position, full account is taken of Public Law 480 as a development resource and the treatment of Public Law 480 as an essential part of a U.S. assistance package is assured. For major assistance countries and for other countries when foreign policy consideration makes it desirable, Public Law 480 programs are submitted to the White House for approval. After Washington approval, and consultation by State as appropriate with other exporting countries, the U.S. Embassy is authorized to conduct negotiations with the recipient government.

Public Law 480 proposals may also be initiated by Agriculture, State/AID, DOD, OMB or the White House in support of a particular objective. In such cases, the Ambassador would be asked to explore the possibilities of a sales agreement with the recipient country. The proposed agreement when ready, however, would be processed through the ISC. Any special features in support of particular foreign policy objectives such as the use of local currencies generated for 104(c) grant purposes would be approved by the National Security Council thus assuring that the Public Law 480 agreement and the use of local currencies generated thereby were integrally related to the other assistance including military assistance which the U.S. might be extending to the recipient country.

D. ADMINISTRATION AND MONITORING OF 104(c) CURRENCY USES

As stipulated in local currencies sales agreements and/or subsequent commodity procurement authorizations, recipient governments deposit local currencies in payment for the commodity received in U.S. Treasury accounts. Any amounts which the agreement provides shall be used for section 104(c) purposes are transferred to the USAID disbursing account where they are available for release to the host country government for the purposes which have been agreed upon. Generally, the Public Law 480 sales agreement does not specify in detail 104(c) uses. These are set forth in a supplemental agreement developed under the direction of the U.S. military advisory group, where these exist in countries such as Korea and Vietnam and the senior DOD representative in the U.S. Embassy in countries where there is no military advisory group. These supplemental agreements cover such matters as amounts and purposes of military budget support grants (i.e. uniforms, salaries, military housing etc.), timing of releases, monitoring and review responsibilities. USAID concludes the agreement with the recipient country and releases local currencies in accordance with the provisions of the agreement as recommended by the U.S. military assistance advisory group or the senior DOD representative on the country team. USAIDs in conjunction with the DOD representative maintain records of deposits and releases of 104(c) funds and make quarterly status reports to AID/W. As provided in the agreements with the recipient country governments, DOD representatives on the country team undertake observation, review and monitoring of the recipient governments military budget expenses and the 104(c) local currencies allocated for military budget support.

E. PROGRAM IMPACT OF SECTION 104(c) CURRENCIES

It is important to place in proper perspective the impact of U.S. aid-generated local currencies on the economy of the recipient country, and their leverage on the allocation of internal resources. In Public Law 480 assistance, the real resource transfers from the United States to the recipient country are the agricultural commodities; Public Law 480 sales are developed and justified on the basis of need for the commodities. The local currencies generated by the sale of commodities to individuals do not represent additional resources even though the United States retains some control over the uses of these currencies. To include these currencies in the assistance extended by the United States, as for example by including 104(c) currencies in the military or security assistance provided out of dollar appropriation, would have the effect of counting Public Law 480 assistance twice. The only real resource transfer is the Public Law 480 commodities themselves.

Local currencies generated by Public Law 480 and AID commodity programs are allocated for the support of the recipient country budget. These funds are, of course, interchangeable with the revenues acquired by the recipient government. Total funds available are allocated to public services, development, defense and other purposes. Thus, the allocation of aid-generated currencies for a particular purpose, e.g. Section 104(c) currencies for military budget support in Korea and Vietnam, is fundamentally an *attribution* of the currencies to one of the purposes which the government has already decided to finance. Nevertheless, the United States is able to use the process of reaching agreement with these governments on *the attribution* of the aid-generated local currencies as a means of keeping informed, and to some degree influencing the level and content, of the government budgets. In both these countries the United States derives additional opportunity for involvement in budgetary considerations from the allocation for budgetary support of local currencies generated from Supporting Assistance Commodity programs.

PL 480, Title I - 104(c) Local Currency Grants for Common Defense
Since Program Inception by Fiscal Years, 1955-1970

Region/Country	1955-1970	1955-1964	1965-1970	1965	1966	1967	1968	1969	1970
	Million Dollars								
AFRICA									
Congo	3.9	--	3.9	3.9	--	--	--	--	--
EAST ASIA									
China(Taiwan)	106.9	86.7	20.2	20.2	--	--	--	--	--
Indonesia	30.5	30.5	--	--	--	--	--	--	--
Korea	597.2	375.9	221.3	34.0	37.6	31.7	53.7	32.0	32.3
Philippines	9.3	7.6	1.7	1.7	--	--	--	--	--
TOTAL	743.9	500.7	243.2	55.9	37.6	31.7	53.7	32.0	32.3
NEAR EAST and SOUTH ASIA									
Greece	11.4	11.4	--	--	--	--	--	--	--
Iran	10.5	10.5 a/	--	--	--	--	--	--	--
Pakistan	79.3	79.3	--	--	--	--	--	--	--
Turkey	110.9	110.9	--	--	--	--	--	--	--
TOTAL	212.1	212.1	--	--	--	--	--	--	--
VIETNAM	541.8	95.8	446.0	41.4	98.2	73.3	96.6	60.8	75.7
EUROPE									
Spain	9.9	9.9	--	--	--	--	--	--	--
WORLD TOTAL	1,511.6	818.5	693.1	101.2	135.8	105.0	150.3	92.8	108.0

a/ Includes loan for common defense of 4.6 in 1962.

Source: U.S. Overseas Loans and Grants (Report for House Foreign Affairs Committee), A.I.D., April 24, 1970.

Mr. SHRIVER. In one of the President's quotes which you used on page 1 of your statement the phrase, "nations whose security is important to us" is mentioned. For the purposes of your planning, is there an established list of these countries which could be made available to the committee?

Secretary LAIRD. Yes, we could put in the record at this point a list of the countries with which we have certain treaty commitments and treaty obligations. It might be well for me to point out that the obligations or the commitments are different depending upon the provisions of the treaty. I have a short summary of the operative provisions of defense agreements which shows whether they are multilateral or bilateral agreements. I think it would be helpful for us to put the whole list in along with the arrangements.

There are some countries that I would also like to add with which we do not have a treaty obligation but we have attached importance to them. One of them—and I alluded to that in my answer to a question of Mr. Rooney—is Cambodia. The only type of agreement or the only kinds of obligations which we have as far as Cambodia is concerned are the Military Assistance and Economic Assistance Agreements which we have made with that country.

So it might be well to list the countries where we have Military Assistance Agreements as well as those where we have treaty obligations.

Mr. PASSMAN. Without objection, that information will be inserted in the record at this point.

(The information follows:)

LIST OF MULTILATERAL AND BILATERAL DEFENSE TREATIES
AND/OR MILITARY ASSISTANCE AGREEMENTS

	RIO	NATO	SEATO	ANZUS	Bilateral Defense Treaty	Military Assistance Agreement*	Proposed FY 72 MAP Recipient
Argentina	X					X	X(T)
Australia			X	X			
Belgium		X				X	
Bolivia	X						X(T)
Brazil	X					X	X(T)
Cambodia						X	X
Canada		X					
Chile	X					X	X(T)
China					X	X	X
Columbia	X					X	X(T)
Congo (K)						X	X(T)
Costa Rica	X						
Denmark		X				X	
Dominican Rep.	X					X	X(T)
Ecuador	X					X	X(T)
El Salvador	X					X	X(T)
Ethiopia						X	X
France		X	X			X	
Germany		X				X	
Greece		X				X	X
Guatemala	X					X	X(T)
Haiti	X					X	
Honduras	X					X	X(T)
Iceland		X					
India						X	X(T)
Indonesia						X	X
Iran						X	X(T)
Italy		X				X	
Japan					X	X	
Korea					X	X	X

(T) Training only.

* Covering sec. 505(a) of Foreign Assistance Act of 1961, as amended.

LIST OF MULTILATERAL AND BILATERAL DEFENSE TREATIES
AND/OR MILITARY ASSISTANCE AGREEMENTS

	RIO	NATO	SEATO	ANZUS	Bilateral Defense Treaty	Military Assistance Agreement*	Proposed FY 72 MAP Recipient
Laos						X	
Libya						X	
Luxembourg		X				X	
Mexico	X						X(T)
Netherlands		X				X	
New Zealand			X	X		X	
Nicaragua	X					X	X(T)
Nigeria						X	X(T)
Norway		X				X	
Pakistan			X			X	X(T)
Panama	X						X(T)
Paraguay	X						X(T)
Peru	X						X(T)
Philippines			X		X	X	X
Portugal		X				X	X
Spain						X	X
Thailand			X			X	
Trinidad & Tobago	X						
Turkey		X				X	X
U.K.		X	X			X	
Uruguay	X					X	X(T)
Venezuela	X						X(T)
VietNam						X	

(T) Training only.
* Covering sec. 505(a) of Foreign Assistance Act of 1961, as amended.

OPERATIVE SECTIONS OF MUTUAL DEFENSE PACTS (U)

(U) NATO

(U) Article 5 of the North Atlantic Treaty states:

> "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."

(U) In addition to the United States, Belgium, Canada, Denmark, France, Federal Republic of Germany, Greece, Iceland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Turkey and the United Kingdom are parties to the Treaty.

(U) SEATO

(U) Article 4 of the Southeast Asia Treaty states:

> "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".

(U) In addition to the United States, Australia, France, New Zealand, Pakistan, The Philippines, Thailand and the United Kingdom are parties.

(U) RIO TREATY

(U) Article 3 of the Inter-American Treaty of Reciprocal Assistance states:

> "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."

(U) In addition to the United States, Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela are Parties to the Treaty.

(U) ANZUS

(U) Articles IV and V of the ANZUS Treaty state:

"IV. 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 . . . ."

"V. For the purpose of Article IV, an armed attack on any of the Parties is deemed to include an armed attack on the metropolitan territory of any of the Parties, or on the island territories under its jurisdiction in the Pacific or on its armed forces, public vessels or aircraft in the Pacific."

(U) In addition to the United States, Australia and New Zealand are parties.

(U) CHINA

(U) Article 5 of the Mutual Defense Treaty with Republic of China states:

"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) JAPAN

(U) Article V of the Treaty of Cooperation and Security with Japan states:

"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."

(U) KOREA

(U) Article 3 of the Mutual Defense Treaty with Republic of Korea states:

"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 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."

(U) THE PHILIPPINES

(U) Article 4 of the Mutual Defense Treaty with the Republic of the Philippines states:

"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 danger in accordance with its constitutional processes."

Mr. RIEGLE. Would that also include then the extent of that obligation? In other words, whatever that agreement calls for in terms of what we have to do for them or they have to do for us; would it be appropriate to add that to this list?

Secretary LAIRD. Do you mean on Cambodia?

Mr. RIEGLE. Yes. Any other exceptions you are going to list not covered by treaties.

Secretary LAIRD. We can do that on those not covered, and Cambodia would be the primary one involved. I just didn't want to have a misunderstanding on whether there is or is not a treaty agreement. It is Military Assistance and Economic Assistance Agreements that are involved.

NEW INTERNATIONAL SECURITY ASSISTANCE LEGISLATION

Mr. SHRIVER. You mentioned a new proposal for an International Security Assistance program. Will this include all of the items on page 8 plus what is now known as Supporting Assistance?

Secretary LAIRD. Yes, it will, and that legislation will be forthcoming very shortly.

I have an arrangement with the chairman and members of the committee that I would testify today based upon the budget submission. That new legislation is being transmitted, but I did not want to delay my appearance based on its submission. It really doesn't have a great effect upon the testimony that I will be giving on these figures and on this Military Assistance and Foreign Military Credit Sales request.

Mr. SHRIVER. Based upon your knowledge of the workings of the Appropriations Committee, do you foresee necessary changes in Congressional committee jurisdiction in this area if this is enacted?

Secretary LAIRD. I do not see any major changes on the basis of the recommendations which will be submitted.

Mr. SHRIVER. Thank you, Mr. Secretary.

I will defer further questions.

Mr. PASSMAN. Thank you very much, Mr. Shriver. I now yield the constitutionally required 5 minutes to the gentleman from Maryland, Mr. Long.

AVOIDING ARMS RACES

Mr. LONG. Mr. Secretary, what are we doing to keep our military assistance and military sales from sparking arms races? I noticed that is one of your intents, but what do we actually do to keep this from causing arms races and overthrowing constitutional governments?

Secretary LAIRD. Well, Congressman Long, I think that the review that we give to these programs to see that they are not sparking arms races is very comprehensive. In the Middle East, where a large portion of this money is involved, I personally review and approve every request. We are trying to maintain a proper balance in that area because we feel a proper balance is important from the standpoint of maintaining some semblance of peace. This is a hard judgment to make.

Mr. LONG. It is awfully hard in the Middle East because the Communists are putting weapons in there. I think we can say that

they caused the arms race more than we did. But what are we doing in Latin America where I don't think that is true? I think what we are doing is causing arms races by giving arms to both sides.

STATUTORY LIMITS ON U.S. ARMS SALES TO LATIN AMERICA

Secretary LAIRD. As far as the Latin American countries are concerned, we are limiting our grant military assistance activities there to training only.

We are limited, by law, to $75 million per year as far as grant materiel and sales are concerned. This is total grants and sales not including training. I think this is a great mistake.

I would like to point out to you why I think this is a mistake. This has happened at a time when our defense industries are phasing down and we have cut back materially in our production of defense items—we have cut our procurement back about $5 billion. By this June, Defense-related employment in industry will have fallen by over a million in 3 years, and there are going to be further reductions.

This limitation that we have on sales has meant that Latin America has turned more and more to the French and the British suppliers and they are moving in there with ever-increasing efforts.

Mr. LONG. Surely you don't believe we should be selling arms and giving assistance just to maintain employment in this country?

Secretary LAIRD. I do not believe we should give up the market as far as military sales are concerned in Central and Latin America by a restriction of a $75 million ceiling when I can see that the market is being taken over almost entirely from abroad.

Mr. LONG. You haven't mentioned the security aspects of it.

Secretary LAIRD. You asked me about what we were doing. We are limited to $75 million, so we are doing very little. The request we have before you for 1972, includes $9.9 million for grant training for Latin America. We are limited to $75 million as far as military materiel grants and sales are concerned. I was merely relating that limitation——

Mr. LONG. I am glad, myself, that we are limiting our assistance. That is where we have to differ.

Secretary LAIRD. Would you permit me to put in the changes that have been made and the amount of sales that have been made by these countries? They have gone over $760 million and as far as—we have lost out on the F–5—on the Mirage, in destroyers, in ship construction. I can go all the way down the line and show you what is happening. We almost had some destroyers built up in Bath, Maine, but the contract went to the British simply because we were not in a position to compete because of the limitation we have in our legislation.

Mr. LONG. Aren't we, to some extent, financing this by giving them economic aid which they can, in one way or another, use or divert to buy armament?

Secretary LAIRD. The amount of the economic aid is not great in Latin America, as you know.

Mr. LONG. Through all faucets, isn't it pretty substantial?

Secretary LAIRD. I would not call it substantial. I do not believe that we are financing sales of military equipment that the French and the British——

Mr. LONG. To any extent at all?
Secretary LAIRD. I couldn't say to any extent.
Mr. LONG. Let me shift to a different question, Mr. Secretary.
Secretary LAIRD. Could I put the figures on sales in the record?

CONSEQUENCES OF LATIN AMERICAN ARMS PURCHASES IN EUROPE

Mr. ROONEY. What would be the consequence of our loss of the entire area in Latin America insofar as the purchase of our military arms is concerned? What would be the consequence?
Secretary LAIRD. The consequences could be serious, I think.
Mr. ROONEY. I would think so.
Secretary LAIRD. I think, Mr. Chairman and members of this committee, that the policy we are following could have grave consequences. This is my personal view, looking at it as Secretary of Defense, and having met with my defense counterparts in France and Great Britain, ———.
Mr. LONG. If I can come back to the question, I think it is up to our State Department to start negotiating a much harder line with our so-called allies; because it is a heck of a note if we are in competition as merchants of death just to keep up employment and to keep France and Britain out. I think we ought to reexamine some of our foreign policy.
Secretary LAIRD. I'd like to examine, too, what the Soviets are doing down in Latin America. I think it would be well to put in the record at this point information on Soviet sales. You can say that it should all be turned over to the Soviets. Following your line of reasoning, that is the way it would probably go, but I am not for turning it over to the Soviets. I think the British and the French are serving a purpose.

SOVIET MILITARY ASSISTANCE TO LATIN AMERICA

Mr. LONG. Those are your words, Mr. Secretary, and not mine. I don't want the record to show that I am in favor of turning anything over to the Soviets, but I would like to know just exactly what the Soviets are doing country by country. Do you have information on that?
Secretary LAIRD. Yes.
Mr. PASSMAN. Without objection, that will be inserted in the record at this point.
(The information was submitted to the committee.)
Mr. PASSMAN. I don't see how any chairman of a subcommittee could place a time limitation on a beautiful lady like we have on this committee. I yield to Mrs. Reid.
Secretary LAIRD. On some of these questions it is very difficult to get too many answers in in the 5 minutes. If I could just enlarge upon the amount by country—I think it should be in your published record—I will see that a copy is supplied for the record because I think this is an important point that we are pursuing.
Mr. LONG. I would like to see it.
Mr. PASSMAN. Supply what you can for the record and give each of us a copy. At least the committee, a copy of the classified information which can be here for the members to check.

Secretary LAIRD. I think it is easy to condemn the British and the French, but I think it is better for them to have their contact there, if the Latin American countries are going to buy this equipment, than to turn over the whole sales area to the Soviet Union and the Eastern European countries. I think that would be an even greater error, Congressman Long.

I would like to show you how the Soviets are moving out around the world in this sales program and in this military assistance program. I do not believe that we want them to completely take over.

(Note: Additional information was supplied the committee.)

SOVIET WORLDWIDE MILITARY ASSISTANCE

Mr. LONG. I would like to have this question answered as part of this story. Is the Soviet military armed sales program as large as ours is worldwide?

Secretary LAIRD. No, it is not.

Mr. LONG. I think that is a very important point that ought to be made before we start getting hysterical about the question whether they are going to take over the world markets. I think we are way ahead of them. In a way I am sorry we are so far ahead of them because I think if anybody has sparked this thing to some extent, we have.

Mr. PASSMAN. My apologies, Mr. Secretary and Dr. Long. We do have rules that we are trying to abide by. The distinguished member is one of the able members of this committee and he has consumed 10 minutes. It only points out how foolish it is to adopt such a rule where you have 10 members on a subcommittee. That means 2 hours just going around the table before you get into the real meat of the matter.

Secretary LAIRD. I will be shorter in my answers.

Mr. PASSMAN. Before we conclude, without being critical, you may rest assured a good record will be made. Each member of this committee is very independent. I am a dove at heart, but a hawk until we get out of this trouble and I am supporting you all the way on military sales. I know where the markets are going and I think we will establish the record and let the record speak for itself.

As I stated earlier, it would take a smarter chairman than I am, or a more brazen one, to try to place a time limitation on this beautiful lady that we are privileged to have on this subcommittee. Therefore, I yield to the gentlewoman all the time that she may use within the 5 minutes to interrogate.

Mr. LONG. All the rest of the afternoon?

Mr. PASSMAN. Within the 5-minute limit.

Mrs. REID. I think you have never had any difficulty.

Mr. Secretary, I want to join with the other members of the committee in welcoming you and personally congratulating you on the job you have done.

EFFECT OF U.S. WITHDRAWAL ON VIETNAMESE ECONOMY

In regard to the Vietnamization program. Our military assistance program obviously plays an increasing role as our ground forces are brought home. I realize this is carried in the defense budget, but there

will be an effect on the economic assistance program here also. Would you comment on this?

Secretary LAIRD. Yes, there is an increasing effect upon the economic assistance program as we withdraw American military manpower from that area. American military manpower in such a massive deployment as was built up from 1965 to 1968 has had a considerable impact on the economy. For that reason, economic assistance to Vietnam will be even more important in fiscal year 1972–73 and as we go through these final stages of the Vietnamization program. As you know, the military budget this year has a total funding for South Vietnam, in the overall service funded assistance programs, of about $1.8 billion. In the military assistance service-funded request, it is up this year. The economic assistance request shows an increase this year. That increase is based upon the reduction of American forces.

Mrs. REID. Which are continuing?

Secretary LAIRD. Which are continuing, and will continue throughout fiscal year 1971, as well as 1972.

EAST ASIA MILITARY MANPOWER

Mrs. REID. In regard to the concept called the total force, in which reserve forces and the capabilities of friends and allies are counted along with active duty forces, what percentage of our total defense strategy could we reasonably expect to come from our friends and allies?

Secretary LAIRD. In terms of manpower or in terms of dollars? I think it might be well to put it in terms of manpower. Taking Asia at the present time, by the end of this fiscal year, we will have withdrawn over 325,000 men, U.S. military personnel from that area since I have been Secretary of Defense. That includes our withdrawals from the Philippines, from Korea, from Japan and Okinawa, and from Thailand as well as the withdrawals from South Vietnam.

The overall military manpower has been increased at the same time we have withdrawn our men. We have a larger military manpower pool with our friends and allies than we had prior to the time we started our withdrawal. So I think, if I could put it in the record at this point in terms of manpower, I think it would give a clearer picture. Some of those countries are making a larger contribution in manpower than they are actually in material resources, because they don't have the resources but they have the manpower.

(The information follows:)

EAST ASIA MILITARY MANPOWER

The number and quality of the forces of other friendly countries in East Asia, are important factors in our force posture in that area of the world. For example, we are modernizing the Korean forces while reducing our authorized force level by 20,000; we have provided military assistance to the Cambodian Government as it has increased to forces from some 40,000 to over 200,000 in order to defend its freedom; and there are now over 1 million men in the Republic of Vietnam Armed Forces which include Army, Navy, Air Force, and Marine Corps, as well as Regional and Popular Forces. In general, President Nixon said in his foreign policy report: "A decade ago our East Asian allies had about 1 million men under arms. Today, that figure has more than doubled, and the quality of equipment and training has significantly improved."

NATO NATIONS—RESOURCES AND MANPOWER

Secretary LAIRD. I could do that for NATO too, if you wish.
Mrs. REID. I think it would be very good to have that for the record.
(The information follows:)

NATO NATIONS—RESOURCES AND MANPOWER

	Total defense expenditures (millions of U.S. dollars) 1970	Defense expenditures as percent of GNP [1]	Population (thousands)	Size of armed forces military (thousands)	Armed forces as percent of total population
Belgium	688.0	3.1	9,714	98.0	1.0
Canada	1,930.0	3.0	21,479	93.0	.4
Denmark	368.0	2.9	4,929	44.0	.9
France [2]	5,904.0	4.7	50,753	569.0	1.1
Federal Republic of Germany	6,188.0	3.8	61,396	476.0	.8
Greece	453.0	5.9	8,901	180.0	2.0
Iceland [3]					
Italy	2,313.0	2.7	54,607	496.0	.9
Luxembourg	8.3	.9	341	1.1	.3
Netherlands	1,082.0	4.0	13,034	116.0	.9
Norway	376.0	3.9	3,882	37.0	1.0
Portugal	398.0	7.3	9,669	230.0	2.4
Turkey	591.0	5.5	35,234	625.0	1.8
United Kingdom	5,950.0	5.5	55,977	378.0	.7
United States	75,922.0	8.4	205,652	3,005.0	1.5

[1] GNP is based on the "factor cost" concept which differs from the "market value" concept normally used to calculate U.S. GNP. The factor cost approach attempts to net out from GNP certain components of market cost which, strictly speaking, have not added to the actual value of the goods or services, but which are nevertheless included in its selling price (e.g., indirect business and/or manufacturing taxes). GNP is calculated on the factor cost basis in order to eliminate the effects of differences in tax rates, which vary from country to country.
[2] Not in NATO integrated military organization.
[3] Possesses no defense forces.

U.S. COSTS FOR SOUTHEAST ASIA

Mrs. REID. Is there any way of determining the relative cost relationship between the amount we are called upon to spend to help our various allies assume greater responsibility for defense under the Nixon doctrine, and the amount we have been spending to maintain our own forces and bases throughout the world?

Secretary LAIRD. Yes, there is. We can relate that in Southeast Asia. As you know, when I made my first appearance before this committee, we had just closed out fiscal year 1969. In that year, our Southeast Asia incremental costs, were $21.5 billion. In fiscal year 1970 we brought that down to $17.4 billion. This year—in fiscal year 1971—we have brought that cost down to about $12.0 million. In fiscal year 1972 there will be further reductions. So we will have gone from $21.5 billion down to almost half that level by June of this year.

We do have some increases in military assistance. We have military assistance increases as far as Cambodia is concerned, but if you compare the offsets as far as the dollars are concerned, the savings are substantial.

I have a little chart that shows those particular reductions in incremental Southeast Asia costs and the levels of support for free world forces in our military functions appropriations. I think those kinds of comparisons would be helpful.

Mrs. REID. Would you supply the chart for the record?

Secretary LAIRD. Yes.

(The information follows:)

ESTIMATED INCREMENTAL COSTS OF SOUTHEAST ASIA AND AMOUNTS FOR SUPPORT OF FREE WORLD FORCES

[Dollars in billions]

	Fiscal year—			
	1969	1970	1971	1972
Incremental costs, SEA	$21.5	$17.4	$12.0	———
Amounts included in military functions appropriations for support of free world forces in Vietnam, Laos, Thailand, and related costs	2.1	2.1	2.3	———
Free world force support costs as percent of total SEA incremental costs	9.8	12.1	19.2	———

As shown in the table, the incremental costs of Southeast Asia are projected to drop from $21.5 billion in fiscal year 1969 to ——— billion in fiscal year 1972, a reduction of ——— billion, or close to ——— in 3 years. Assuming outlays for support of free world forces included in incremental SEA costs can be equated with programed amounts during the period, free world support costs increase consistently as a percent of total SEA incremental costs, from less than 10 per cent in fiscal year 1969 to close to ——— in fiscal year 1972.

Based on the above data, the reductions in incremental Southeast Asia costs since fiscal year 1969 have all been related to reduced support cost requirements for U.S. Forces.

Mrs. REID. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Mr. PASSMAN. Thank you very much, Mrs. Reid. We will now yield to the distinguished member, Mr. Roybal.

Mr. ROYBAL. Thank you, Mr. Chairman.

RESTRICTIONS OF SALE OF SOPHISTICATED MILITARY EQUIPMENT TO LATIN AMERICA

Mr. Secretary, I would like to follow the questioning along the lines of Congressman Long, and that is with regard to Latin America, and your philosophy with regard to supplying sophisticated military equipment to those countries.

In visiting these countries we find, of course, that economically they are very poor. It seems to me quite a pity that such large amounts of money are spent for military equipment when the only thing they can possibly do is fight one another. What is the Nixon administration's policy with regard to supplying planes and other sophisticated military equipment to countries like Argentina and Chile?

Secretary LAIRD. We follow the policy as set forth by the restrictive language that has been established by the Congress. It takes a presidential determination, as you know, before sophisticated aircraft can be sold utilizing U.S. Government credit.

Mr. LONG. Are you referring to the historic Long-Conte amendment?

Mr. PASSMAN. Conte-Long-Passman amendment.

Mr. LONG. Once you make a success of something, everybody wants to be in on it.

BRITISH AND FRENCH ARMS SALES IN LATIN AMERICA

Secretary LAIRD. But these restrictions are placed upon the sales, and I can assure you that as Secretary of Defense I respect the mandates of the Congress and live with them and follow them. I was

merely pointing out, in answering Congressman Long's question, that since 1969 France was at that time averaging about ———, and the restrictive language that has been placed in the bill by the Congress has now provided France last year with ——— worth of sales.

Mr. ROYBAL. To what countries, Mr. Secretary, has this equipment gone?

Secretary LAIRD. They sold ——— Mirages to Argentina at a cost of ———. They sold ——— Mirages to Brazil at a cost of ———. These were the Mirage III's. They sold ——— Mirage 5's to Colombia, ———. They sold ——— tanks, and ——— armored cars to Ecuador at ———. They sold ——— tanks to Venezuela at ———. They sold sophisticated radar and communications equipment to Argentina at ———, making a total of ———.

At the same time period that we are talking about, the British have done the same thing. They have doubled their sales. They have sold ——— frigates to Brazil at a cost of ———.

Mr. LONG. Can I get a list of this, Mr. Secretary?

Secretary LAIRD. Yes. Should I give some of these to you now?

Mr. ROYBAL. If that can be submitted for the record.

Mr. PASSMAN. If it is not classified, submit it for the record.

Secretary LAIRD. It is classified. I will try to get as much of it declassified as we can.

Mr. PASSMAN. Would the gentleman yield?

Mr. ROYBAL. I yield.

Mr. PASSMAN. Could you give us the aggregate for the record. Then we will have the classified information in the safe, where all Members can see it.

REASONS FOR CLASSIFYING SALES DATA

Mr. LONG. I am wondering why it is classified?

Mr. PASSMAN. The Secretary of Defense makes that decision.

Mr. LONG. These are sales by a foreign country to another foreign country. I don't see why they are classified?

Secretary LAIRD. It is because of the source by which we got this information that it is classified. I think we could round off, the prices and give you figures that would serve your purpose.

Mr. LONG. If you give us the figures we might explore this with you later.

Mr. PASSMAN. If the gentleman will yield further, if you will give us the aggregate cost, then give us the countries, the items and the amount as a classified item, we will put them under lock and key, and each Member can come in and have a complete look at the record. Is that acceptable?

(The information was supplied to the committee.)

Mr. LONG. Yes, and I would also like to explore later to what extent some of these items could be declassified.

Mr. PASSMAN. That will be up to you and the individual as far as I am concerned. When they submit it classified or secret I am going to respect it. If you request that it be declassified, they will make the decision.

STATUTORY RESTRICTIONS AIDED BRITISH AND FRENCH SALES

Secretary LAIRD. The point I want to make is that the U.S. foreign military sales orders in fiscal year 1969 were about $1.7 billion. Even

with increases in prices, these restrictions in fiscal year 1970 reduced foreign military sales by about $700 million.

The point that I think we should consider is that this restrictive language is not really accomplishing the purpose that I believe many of the supporters had in mind when they placed it in the legislation.

Mr. LONG. If the gentleman will yield for a moment.

Mr. ROYBAL. If I can have one additional minute?

Mr. PASSMAN. I yield to the gentleman the time required to offset the time I consumed.

Mr. LONG. I don't think we ever supposed that this was going to stop completely any arms race. We merely felt that so far as the United States was concerned, our conscience would be clear, insofar as sparking arms races and that our economic aid would not be diverted to enable countries, contrary to our intention, to be using that money either directly or indirectly to buy a lot of weapons, and create all kinds of military situations that I think are undesirable from their point of view, or from the point of view of the rest of the world. But I don't think we ever believed that we were going to achieve world peace by those amendments.

Secretary LAIRD. As you know, we do maintain a very low profile, and we follow the mandate of this Congress.

Mr. LONG. I want to compliment you for doing that.

Secretary LAIRD. As far as sales policy is concerned, we are maintaining a low profile, and we are following the preamble of the military and economic assistance act, but I thought it was important for the committee to have this kind of information, and that is why I make it available.

LATIN AMERICAN NEED FOR ARMS QUESTIONED

Mr. ROYBAL. A few years ago I attended a conference in Uruguay, and met with many of the Latin American leaders, whose purpose for meeting with us was to talk about military assistance. After a couple of hours of conference, it was finally determined by those of us who went to Uruguay from Washington that they made one important point. That is that this military equipment was needed, not because they had any border problems, or because they were going to fight any particular nation, but because once a year they had a parade, and they displayed their military equipment. This man told me it was most embarrassing to have to show only equipment that was obsolete and used in World War II. The Mirage, for example, is a fighter plane, is it not?

Secretary LAIRD. Yes, it is.

Mr. ROYBAL. I think you need a fighter plane when you are going to fight. That plane would perhaps not be sophisticated in our particular terms, but it is sophisticated equipment to them. After hearing this kind of a statement from the man who is leading the delegation, in justification for military assistance, I came to the conclusion that they not only did not need this kind of military assistance, but that they were using some of our aid money to buy some of these planes. If not buying them from us they were buying them from France, and as long as we continued to give them aid on one side, they are going to use some of their own money to buy military equipment.

I think this committee must examine very closely the continuation of that particular policy, for I do not believe that we should give them x amount of dollars in aid so that they can spend the same amount

for planes, as one particular country did just a couple of years ago. I realize that that doesn't require an answer, Mr. Secretary, but I am glad you gave me the opportunity to put that in the record.

Mr. PASSMAN. Thank you, Mr. Roybal.

Secretary LAIRD. I think it is important for us to bear in mind that a very different situation does exist in Latin America. The military is the only cohesive group in many of the countries in Latin America, and they are very important.

Mr. ROYBAL. In Argentina and Chile, for example, the military changes. First one group takes over and then another. Now which side are we going to be on? We can't possibly be on both sides, or can we? I know we have been in Cuba and in other countries, but it seems to me to be a bad situation, when we have to put our money in on whatever side decides to take over a particular country.

U.S. REDUCING, SOVIETS EXPANDING MILITARY ADVISORY ACTIVITIES

Secretary LAIRD. I think you have to look at what the Soviet Union is doing in the world today. They did not react as some people thought they would to our withdrawing and cutting down on our military assistance groups. In 1968 we had about 7,500—give or take a few hundred—military officers assigned to our military missions. We have reduced that down to 3,680. In 1968 the Soviet Union had about 4,000. They have gone up now to over 9,000, so in the period of time while we are reducing our military assistance groups throughout the world from over 7,000 down to less than 4,000, they have gone from 4,000 up to 9,000. I think that that is rather significant. They must attach a great deal of importance to this kind of contact in the various countries where they are maintaining these missions.

Mr. PASSMAN. Thank you, Mr. Roybal, I have to move with great caution in the position I have as chairman of this committee. I have served in the House with three Presidents, namely John F. Kennedy, Lyndon Baines Johnson, and Richard M. Nixon. I read in the press a few months ago where a member of this committee aspired to the nomination in 1976. Members of the committee, a future President, Don Riegle of Michigan.

Mr. LAIRD. Mr. Chairman, I didn't realize that that was 1976 he was talking about.

Mr. PASSMAN. We just moved the date up a moment ago.

Secretary LAIRD. I think you rather downgraded him.

Mr. PASSMAN. The gentleman from Michigan has the right to correct my remarks in the record.

Mr. RIEGLE. That may turn out to be the year 2076. What he didn't say is that we are envisioning a Riegle-Passman ticket.

Mr. PASSMAN. Now I will have to correct the record.

Secretary LAIRD. I would say you have kept it very hot in here all the time, Mr. Chairman, whether you are a candidate or not.

Mr. RIEGLE. I just want to say as I begin my fifth year on this subcommittee that I am pleased to serve with the chairman from Louisiana, and it is a pleasure to have the Secretary of Defense here today. I think he has been a good Secretary of Defense and I respect the job that you have tried to do, since having this job, and I realize it is a difficult one.

I wanted to say at the outset, noting the other day in the press that we had made the decision to take the remaining servicemen off the DMZ in Korea, that that was a very encouraging thing to read. You will probably recall that some 2 years ago my fellow subcommittee member, Garner Shriver, and I had come back from Korea and questioned whether we should keep our men on that border nose-to-nose with the North Koreans, and I recall your being very responsive about it at the time. It was satisfying to read about that change. We would both like to think that perhaps we participated in a very small way in framing that question.

INCREMENTAL COSTS FOR VIETNAMESE CONFLICT

Mr. Secretary, with respect to the expenditure levels in Vietnam that you cited when Mrs. Reid was cross-examining, what has been our aggregate expenditure in Indochina since the administration took office? I gather it is somewhere in the range of $30 to $40 billion to date, if you totaled all categories. But what would be the up-to-date figure?

Secretary LAIRD. Would you like that figure to be total costs?

Mr. RIEGLE. Primarily military.

Secretary LAIRD. You see, there is a difference. We can give you the incremental costs and the full costs. The incremental costs would cover only the extra costs above peacetime strengths and operating levels associated with our presence in Asia, whereas the full costs would include all of the costs of our forces engaged plus their support. This would include, for example, our carriers. We would assume that the carriers would still be in our inventory after the war. The ships, and the other baseline units would still be in our inventory.

Mr. RIEGLE. Is a portion of their cost presently added to the Vietnam expenditures, to the extent that ships offshore are used, landing craft and so forth, or are they not?

Secretary LAIRD. Much of their costs are not included in the incremental costs. They are included in the full cost figures. As you know, the fiscal year with the highest incremental cost was more than half gone just prior to my taking office. The incremental costs were $21.5 billion in fiscal year 1969. The full costs of the war at that time were close to $29 billion.

For example, when we take a Marine division out of Vietnam and put it in Okinawa, it is still part of the defense budget. It is still part of our costs. Its entire operating costs would be counted as part of the $29 billion full costs in fiscal year 1969. Only the extra costs above the normal peacetime operating level would be counted as far as incremental costs are concerned, because it is a part of our base line force, and the peacetime operating costs of the Marine division would be paid anyway.

For a carrier that is operating off the coast of Vietnam, the major things that are in the incremental costs are the ammunition and the expenses in steaming over peacetime operating rates. The other costs are not included because the carrier is a part of our baseline force structure. Am I making myself clear?

Mr. RIEGLE. Yes, you are. How far out does that perimeter extend which would still include, as the base costs, the costs that you would normally associate in a general way with Indochina? Does that go out 2 or 300 miles? What is the operating radius?

Secretary LAIRD. In the total costs, even the replacement carriers coming on station would be involved.

Mr. RIEGLE. No matter where they go?

Secretary LAIRD. They go all the way back to the States, you see.

Mr. RIEGLE. Could you then supply for the record, both the incremental and the total cost since the administration assumed office?

Secretary LAIRD. Yes; we will do that.

Mr. RIEGLE. Up to the present time.

(The information follows:)

SOUTHEAST ASIA OUTLAYS

[Dollars in billions]

	Full costs	Incremental cost
Fiscal year 1969	$28.8	$21.5
Fiscal year 1970	23.1	17.4
Fiscal year 1971	15.3	12.0

Note: Based on the above data, and assuming fiscal year 1969 costs may be prorated, full SEA costs for the period February 1969–June 1971 are estimated at $50,400,000,000; incremental SEA costs for the same period are estimated at $38,400,000,000.

DOWNWARD TREND IN SOUTHEAST ASIA EXPENDITURES

Mr. RIEGLE. Can you tell me what the present rate of expenditure is now on a monthly basis, the approximate rate in both categories?

Secretary LAIRD. Yes. At the present time we are spending at the annual rate of approximately $11 billion. We will bring that down in the 1972 budget to a rate of ———.

Mr. RIEGLE. That is incremental?

Secretary LAIRD. That is incremental. That is the additional costs of our presence. The forces that are coming out of Vietnam now are almost entirely part of our baseline force. So we still have much the same expense associated with them, if we bring them back to the United States, ——— or as part of our baseline force structure. That cost continues, and so there is little saving. We have already returned, as far as our Government is concerned, the so-called peace dividend. We have reduced our costs substantially as we have applied our Vietnamization program.

As you know, the fiscal 1972 Defense budget is at almost the same outlay levels as the fiscal 1964 budget, in terms of constant fiscal 1972 dollars. We have already returned the peace dividend as far as the country is concerned, the first time that that has ever been done at a time when we are still engaged in a war.

APPRAISAL OF LAOTIAN OPERATION

Mr. RIEGLE. Just one other question, in light of the time here. As Members of the Congress we have gotten different kinds of appraisals on the Laos situation, because a lot of people are talking about it and it is difficult to know who is informed and who isn't but I am wondering if you could give us a very brief assessment of how that opeation is going, and where things stand today.

Secretary LAIRD. I think I would like the chairman to brief you on that, if it is agreeable.

Mr. PASSMAN. Yes, Admiral Moorer.

Admiral MOORER. Yes, sir, Mr. Chairman. I will be pleased to repeat what the Secretary of Defense and I reported to the Senate Armed Services Committee on the situation as it stands today.

This operation was conceived as being in three phases. In the first phase, the South Vietnamese were to move into Laos; in the second phase they were to disrupt the Ho Chi-Minh Trail, moving around from place to place, uncovering caches and disrupting the roads. The third phase was to constitute the withdrawal of the South Vietnamese back into South Vietnam.

As was expected, the enemy reacted very violently to this operation. The loss of Cambodia to the North Vietnamese for use as a sanctuary, and particularly loss of the use of the port of Sihanoukville last year, has made it necessary for the North Vietnamese to bring all of their supplies down from North Vietnam through the Ho Chi-Minh Trail. Consequently, unless they can continue to use this avenue of logistics supply, they are essentially out of business for conducting their aggressions in the southern part of Indochina. This was the reason the South Vietnamese wanted to conduct this operation and this was the reason we expected the North Vietnamese to react strongly to the operation. We were willing to accept this enemy reaction since the South Vietnamese for the first time had developed to a point where they had an independent capability to plan and execute an operation of this complexity and go it alone without U.S. advisers or without any U.S. ground assistance. Still we are, as you know, providing full air assistance, both fixed wing and helicopter.

The operation has been marked by a series of very sharp clashes throughout the area and, in general, from the overall view, the South Vietnamese have exhibited outstanding fighting ability. The North Vietnamese commanders have reacted with no regard whatever for their own casualties. They have made mass assault after mass assault throughout the area.

In contrast, the South Vietnamese have used a tactic which was designed in advance, wherein they could take full advantage of this air support. In the process of conducting this operation, when they would make a contact, they generally would back away, and call in air support. As a result of this tactic, we have had frequent situations wherein they would pull back and then move forward again into the area and find several hundred North Vietnamese casualties.

It is reckoned that as a result, the North Vietnamese have lost approximately 13,000 men so far. We feel that this is a fair estimate as such estimates go. However, there may be even greater losses than this. We do know that there are many areas in Laos that were hit by aircraft where the South Vietnamese did not enter. Consequently we feel there are additional losses not reported by the South Vietnamese.

The North Vietnamese, reacting strongly to what was taking place, also introduced a very large number of tanks. ———.

———. General Abrams himself estimates these tank losses to be somewhere in the vicinity of 50. He thinks probably that the actual loss figure may be in between say 80 and 90—but in any event we can conservatively say the enemy has lost one-third of his tanks as a result of the Laos encounter.

As of today, the withdrawal phase of the campaign is essentially completed. There are now about 2,000 South Vietnamese left in Laos.

These are the South Vietnamese Marines. Also a few other armored forces on the Laotian border were fighting this morning in a limited action with the North Vietnamese tanks. They destroyed two or three of them.

There have been some suggestions in the newspapers that this operation was a rout for the South Vietnamese. This was not the case. Every South Vietnamese unit came out intact, with their command and with their tactical integrity maintained. Some of the units naturally were very hard hit, and these will need refitting and replenishing. On the other hand, General Abrams reports that out of the 33 maneuver battalions of the North Vietnamese, that only 17 are currently effective as a result of these casualties I mentioned. They are the ones that are operating generally in the eastern border of Laos against the South Vietnamese forces.

I think on balance, in light of the fact that the North Vietnamese did have their supply lines disrupted, that they did lose a very large number of people, that they did lose a large amount of supplies and a large amount of their tank force, and trucks, we feel this is going to have a significant impact on the future, and limit what the enemy can do.

We knew, for instance, the North Vietnamese had two divisions poised to come into Military Region I, before this operation commenced. Now they probably won't be able to have this posture. In about 3 or 4 months we will have, I think, a better assessment of this impact, but even now, on balance, we think it was a productive operation.

Mr. RIEGLE. One clarification before yielding. Do I understand then that the central part of this strategy was that the South Vietnamese were essentially used as a decoy, to draw the North Vietnamese, or whoever the enemy forces were, into place so that our air power could come in and destroy them in large numbers?

Admiral MOORER. No, I wouldn't agree with the use of that term, because the South Vietnamese provided the ground forces. They provided the ground side of the air-ground team, which permitted this type of operation.

I should point out to you that the majority of the North Vietnamese were killed on the ground by the South Vietnamese soldiers, so I am not suggesting that the majority of the enemy were killed by air by any means.

Secretary LAIRD. I think that that point is important. Chairman Moorer and I were in Vietnam in January. We met with President Thieu. We met with the Joint General Staff of the Vietnamese military forces. They presented this plan of operation along with the plan of operation which they wanted to conduct in Cambodia. They requested air support for their operation in Laos.

I spent a considerable amount of time, and Admiral Moorer spent a considerable amount of time, in going over the plans which they had in their requests for air support. The primary objective of their operation was to do what they could to disrupt the enemy supply routes in the Ho Chi-Minh Trail area, and to prevent the enemy from carrying on military attacks in Military Region I.

They were concerned that that is where most of the fighting would take place, during this dry season. It would take place in Military

Region I, because of the shortness of logistics supply lines to Military Region I. They felt that the North Vietnamese could carry on military opertions in Military Regions III and IV later on during this year, if they were able to resupply during this dry season. They wanted to disrupt those supply lines for that reason, so that they would not be able to replenish the Cambodian sanctuary areas, and would not be able to replenish their troops in Military Regions III and IV.

As I was briefed on the operation by President Thieu and General Binh, they anticipated it would go from 5 to 8 weeks. As it turns out with this withdrawal phase, which will probably be completed within the next 24 hours, I would think, they stayed a little over 6 weeks. We had agreed to provide air support for Lam Son 719 through the 5th of April, but that was in the time frame that the job was to be done.

I think in order to assess the operation and its effects, you have to see what happens in Military Regions III and IV. They are always going to have the capability of mounting attacks in Military Region I because of the shortness of the logistics supply route. But now we have to see what does happen, if they are able to refit and resupply their troops down there, because they cannot supply them any longer through Cambodia.

Mr. PASSMAN. Thank you, Mr. Secretary. Thank you, Mr. Riegle and Admiral Moorer.

Mr. Hathaway?

Mr. HATHAWAY. Thank you, Mr. Chairman.

LICENSES TO EXPORT MILITARY EQUIPMENT

Mr. Secretary, it is a pleasure to have you with us. I just wanted to straighten out in my own mind some of the statements that you have in your general statement. On page 6 you indicate in the fifth consideration, the commercial sales of most types of military equipment must be individually licensed by the Department of State, that is not in conjunction with defense? Why doesn't Defense do the licensing?

Secretary LAIRD. We participate in that, but the actual licensing, must be done by the Department of State. Under the terms of the law that is the way in which we operate.

Mr. HATHAWAY. But with your cooperation?

Secretary LAIRD. Yes, we cooperate with them, but the actual licensing is done by State.

NEW LEGISLATION FOR SECURITY ASSISTANCE

Mr. HATHAWAY. The bottom of page 6 going over to page 7, you indicate that there is a review going on as to procedures and organizations for the planning and administration of all elements of the military assistance program. I just wonder when that review will be completed?

Secretary LAIRD. The legislation which will be submitted—I am not sure of the exact date—will be submitted to the Congress within 10 days to 2 weeks, with a day or two on either side. But I didn't want to delay my appearance, because the chairman had gotten in touch with me and with my office. We felt that this portion of the program is all firm, there was no reason that this committee shouldn't go forward

with its hearings. It should not wait for that report and the legislation to be delivered, but it will be delivered to you shortly.

AMOUNT OF NEW APPROPRIATIONS NEEDED

Mr. HATHAWAY. On page 8 I want to know if I have the figuring correct. You say you want $1.2 billion of new obligational authority. Is that the .7, .3, .3, the last three items in the top bracket, adding up to ———. The total adds up to ———. That would add up to 1.3 really.

Secretary LAIRD. The top of page 9.

Mr. HATHAWAY. The 1.2, how does that fit into the total of 5.2? Which items on that table totaling 5.2 makes up the 1.2?

Secretary LAIRD. I can give that to you. It is right here, grant military assistance of $705 million, and then the foreign military credits—including the credits to Israel—of $510 million. Those are the items.

Mr. HATHAWAY. That is what I thought. Thank you.

GRANT AID REPLACED BY SALES AT CONCESSIONARY TERMS

On page 11 you indicate it is your hope that it will eventually completely replace such funds, "even if offers of concessionary terms are necessary to replace grant aid." What concessionary terms do you have in mind, soft currency?

Secretary LAIRD. Extending the terms of payment.

Mr. HATHAWAY. Beyond the 10 years?

Secretary LAIRD. Beyond the 10 years, perhaps going to 20 years. This is an example of the types of changes.

Mr. HATHAWAY. You hadn't considered soft currency payments or anything like that?

Secretary LAIRD. That has been considered, but I believe that we would be more apt to go in the direction of longer term credits. As you know, in the case of Israel now, we are giving them a little different credit terms than in regular foreign military sales.

Mr. HATHAWAY. What is that?

Secretary LAIRD. Under the terms of the Military Procurement Act that covered the 1971 authorization for the Department of Defense, provisions were written into that bill in the rider that was adopted in the Senate and approved by the House, which gave to the President, and he has assigned it to me, the authority to give terms at least as good as the Foreign Military Sales Act.

The interpretation of that has been that this places Israel in a favorable position under the terms of that act.

AGENCY RESPONSIBLE FOR SECURITY ASSISTANCE

Mr. HATHAWAY. One more question on the statement. On page 7 you say you strongly oppose proposed legislation to shift the entire responsibility for security assistance to the State Department and phase out the grant and sales program in the near future.

Could you give me your reasons for that?

Secretary LAIRD. I have a good many reasons for that. At the present time the State Department and the Department of Defense

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Secretary LAIRD. Not to my knowledge. ——— These are Government guaranteed credits that are going forward, but I am sure the British and the French would respond if you ask them the question that I do, that they would rather be selling the Mirage there than to see Mig–21's sold in the area, and the Russians are very anxious to sell the Mig–21. That is the kind of response one receives, but they have increased their sales tremendously. When you take the amount of material that the French and the British are putting in there, it is a substantial increase since we have had this limitation in our bill. It is something that certainly has had an adverse effect upon our defense industries.

DOWNWARD TREND IN U.S. ARMS SALES

Mr. HATHAWAY. Did you say the total allied sales are greater than the total Communist sales or did you say the total U.S. sales, in answer to Congressman Long's question?

Secretary LAIRD. I said the total U.S. military sales were greater than the total Soviet military sales, but in that context we were not limiting it to Latin America. We were talking worldwide.

Mr. LONG. Would the gentleman yield on that?

Mr. HATHAWAY. Certainly.

Mr. LONG. Isn't it true that we are a greater seller of military arms, or giver, than all of the rest of the world put together?

Secretary LAIRD. No, that is not true. It is important for everyone on this committee to realize that British and French sales now equal those of the United States. This has happened within the last 2 years.

Mr. LONG. Currently. Historically we are still No. 1, aren't we? We have sold more and given more than all other countries in the world put together.

Secretary LAIRD. I would assume that is correct, but let me check the figures.

Mr. PASSMAN. Can you insert it in the record?

Secretary LAIRD. I will put it in the record. I assume that is probably correct.

(The information follows:)

TOTAL U.S. MILITARY ASSISTANCE VERSUS OTHER COUNTRIES WORLDWIDE

It is true that since the initiation of U.S. military assistance in all forms, including grant aid and cash and credit sales, the United States has sold or given more to the free world than all other countries combined have sold or given to the free world.

The data available to us indicates that, for the period 1954–70, the total value of military assistance provided by all countries, including both Communist bloc countries and those in the free world, to free world recipients totals approximately $17.3 billion. That total includes both cash and credit sales as well as outright grants.

During the period fiscal year 1950–70, the dollar value of military assistance deliveries to all free world countries by the United States including both grant and sales totaled approximately $40 billion.

———.

Secretary LAIRD. The point I am making is that the shift has taken place, and now the British and the French are equal to the United States as far as military sales are concerned. As for the Soviet Union, I have already put in their figures. They are now up considerably and we have already put that in the record.

Mr. HATHAWAY. We are going to have all those figures for the record.

Mr. PASSMAN. Would the gentlemen yield for some clarification? I believe it may have been General Warren who testified to this fact last year, that we recognize that all of these nations are determined to have military equipment and they are determined to procure it somewhere. Of course the United Kingdom, France and the other Nations who manufacture and sell military equipment recognize that there is a big profit involved for the manufacturer and possibly a big tax for the government. And as we are backing out, they are going in and taking the market. Is that what we were told last year?

General WARREN. Yes.

Secretary LAIRD. There is no question about that.

Mr. PASSMAN. Thank you very much. Mr. McEwen?

Mr. MCEWEN. Thank you, Mr. Chairman.

Mr. Secretary, I particularly welcome at my first meeting as a member of the Appropriations Committee seeing you here and Admiral Moorer, General Warren, and these other gentlemen.

SOUTH VIETNAMESE MILITARY CAPABILITY

Mr. Secretary, one question I am prompted to ask by Admiral Moorer's report on the operation in Laos, which I might say gives me a somewhat different view than what I have been getting from my TV tube at home and from the press. I have been gathering from the news that possibly this was a military disaster second only to what the TET offensive was. Looking down the road, hopefully not too far, Mr. Secretary, if the program of Vietnamization proceeds with success, more military assistance is given to the South Vietnamese and more and more they assume the responsibility, do you foresee, Mr. Secretary, any problem in restraining, if this should come about, the South Vietnamese in what actions they might wish to take against North Vietnam? I know we have been very cognizant of sanctuary for a long time. I wonder if they share that feeling. We have said we have no designs on the territory or the Government of North Vietnam. Do you foresee any problem in our relations with the South Vietnamese, in possibly asking that they restrain their actions?

Secretary LAIRD. No; I do not. In our Vietnamization program, as I explained here last year, phase 1 of the Vietnamization program involves the turnover of the ground combat responsibilities to the forces of the South Vietnamese for the security of their own country. Phase 2 consists of developing within South Vietnam, the air, naval, logistics, artillery, and other support capabilities needed to maintain effective independent security. Phase 2 runs concurrently with phase 1, but phase 2 takes a little longer because of the training that is required. It is true that the South Vietnamese Air Force is being built into a very substantial force. A year ago they had 23 squadrons. Today they have 33. By fiscal 1974 they will have 50. A year ago they had about 150 helicopters. Today they have over 350 helicopters. They have one of the largest helicopter forces of any free world army with the exception of the United States. They have 1,100,000 men in their regular forces.

As far as the South Vietnamese being able to maintain their own security, protect their country against the threat of both the Vietcong and the North Vietnamese, I have no question that the Vietnamization program is giving them that capability—the Vietnamization program and the guidance in that program were to give them the capability of defending their own country—maintaining their own security against both the Vietcong and the North Vietnamese threat. There is no question that they will be able to carry on operations whether it be in Cambodia or in Laos, or they could carry them on in North Vietnam. But they do not have the kind of capability that would allow them to operate in the north as the United States operated in the north prior to the so-called understandings of 1968. I am trying to answer the question as rapidly as I can in a short period, but I could fill in on that a little, because I do think there are certain restrictions that are built into the program. Perhaps Admiral Moorer would comment on that. I think I have covered most of it.

Admiral MOORER. Yes; you covered it very well, Mr. Secretary. The South Vietnamese Air Force is designed to provide a balance with their ground forces, so they can carry out their task of defending their own country.

Secretary LAIRD. You see, there are some people who feel that you should create the South Vietnamese force in the image of the U.S. forces. I do not agree to that. First, the South Vietnamese forces, in order to maintain their force structure, have to be able to operate within the areas in which most of the forces come. They do not need the same degree of mobility that the U.S. forces do. They should have some forces that have that mobility, but every division, in the South Vietnamese military forces does not need the same kind of mobility that the U.S. forces have. They couldn't afford to do that over a long period of time. You couldn't justify a regular, regional end force of 1,100,000 on that kind of a basis.

Mr. MCEWEN. And mounting an offensive directly against Hanoi would require that mobility and a more sophisticated air cover than they would be able to provide?

Secretary LAIRD. They could conduct operations in North Vietnam, but not the same type of air activity that we did until 1968. They will not have the same kind of interdiction capability, with the kind of Air Force that they will have, and that was not intended. They will have an air defense capability. They will have close air support and ground support capability. They will have, in several of their units, the mobility that U.S. forces have, with the large helicopter force they have. But when you ask whether they could conduct the same kind of activities that have been carried forward in the past, I would be misleading you if I told you the South Vietnamese should have that kind of sophisticated equipment. I don't believe they should have it. I have not recommended that they have it at this time.

(Discussion off the record.)

U.S. MILITARY SALES COMPARED WITH OTHER COUNTRIES

Secretary LAIRD. Mr. Chairman, General Warren just gave me a figure. I said the figures were about the same for the United Kingdom and France. I find that last year the United Kingdom, France, Germany,

Italy, and Canada—if we add Germany, Italy, and Canada, you will find that they have made about $2 billion worth of sales compared to about $1.5 billion worth of sales for the United States.

Mr. PASSMAN. Thank you, Mr. Secretary. We are going to try to make a very good record on that later. I shall ask some questions when it comes to my time. We now recognize Mr. Galifianakis. We have extended a welcome to all of the other new members, but you were busy, so we want to extend to you a personal welcome to the committee.

Mr. GALIFIANAKIS. I wanted to add my welcome to the Secretary, a former colleague, certainly to the admiral and the general too and to say that the Secretary has, I think, a unique experience and capability that I think is going to help us bridge a lot of the gaps that exist between the Legislative and the Administrative Branch. I think he has got quite a challenge, and I think he can help us with our own difficulties.

RECIPIENT COUNTRY RESALE OF U.S. ARMS

I have a question that relates to the sales of arms or parts of arms. Do you sell to any country that in turn resells to other countries?

Secretary LAIRD. Not without our permission. That is prohibited under the law, and so we do not.

Mr. GALIFIANAKIS. Have you granted permission?

Secretary LAIRD. There have been some permissions granted over a period of time, yes.

Mr. GALIFIANAKIS. Is it permissible to have that for the record?

Secretary LAIRD. Yes, we will be glad to give you that. Each time that we do that, make an exception, we give a report to the Congress.

(The information was furnished to the committee:)

CONTINUING ACCOUNTABILITY FOR U.S. EQUIPMENT

Mr. GALIFIANAKIS. Do you have any monitoring system or a method of accumulating data on the utilization of that equipment, or is it like any other purchase and sale agreement, where it is none of our business as to what happens to it thereafter?

Secretary LAIRD. The Congress requires under these programs that we maintain accountability for the material and we have to report if any of it is transferred. This is an important requirement that is in the law.

Mr. GALIFIANAKIS. Do you have instances of disappointment where special permission has been given or permission given in the first instance for the sale and a disappointment or regret that the sale was made?

Secretary LAIRD. I think the answer to that would probably have to be "Yes." There have certainly been cases.

Mr. GALIFIANAKIS. If we could have some examples for the record.

Secretary LAIRD. Our Military Assistance Advisory Groups have done a good job in keeping track of this, and we have it pretty well inventoried.

Since I have been in this position I can think of no instance where there has been any abuse.

MILITARY ASSISTANCE TO CAMBODIA

Mr. GALIFIANAKIS. On page 10 you list countries there. Cambodia was not listed as a country receiving this type of assistance in the last budget; was it?

Secretary LAIRD. Yes; it was added with a supplemental request that was approved by the Congress in December, so it is listed in the fiscal year 1971 program.

Mr. GALIFIANAKIS. Prior to that time it was not a listed thing?

Secretary LAIRD. That is correct. It was a program which was terminated back in about 1963.

Mr. GALIFIANAKIS. Is the principal reason for now including Cambodia presently predicated upon the safe withdrawal of our troops from Indochina? Is that the basic reason now why it has become significant?

Secretary LAIRD. That is the basic reason I am interested in it. I believe that the Cambodian military assistance program has a very great impact, not only on insuring the progress of our Vietnamization program, but also, by having the Port of Sihanoukville—now Kompong Som—closed to the North Vietnamese. Sihanoukville was supplying about 80 percent of the supplies for the enemy in Fourth Corps, and about 60 percent of the supplies in Third Corps for the enemy. This is of significant importance to the protection of our forces in South Vietnam.

However, I think another factor is that it is of importance to the security of that area, too, to have a country that wants to defend itself against the same aggressor that is attacking the South Vietnamese. They have over 200,000 men and women in their military forces; they have built them up in a short period of less than a year.

———.

I think if the training can go forward with the existing strength, they could make a significant security contribution to that area of the world. We must realize that well over ——— percent of that force has had less than ——— of training. So this is a force that has been developed rapidly there, but they are doing very well, much better than I thought they would.

SERVICE FUNDED MILITARY ASSISTANCE TO SOUTH VIETNAM

Mr. GALIFIANAKIS. Do you envision the addition of South Vietnam on a list like this in the near future?

Secretary LAIRD. It is under the military assistance service-funded program (MASF) now. I would recommend that it remain under the service-funded program in 1972 and in 1973.

AUTHORITY FOR FISCAL YEAR 1970 MILITARY ASSISTANCE TO CAMBODIA

Mr. GALIFIANAKIS. I was wondering what the considerations were, because when I looked at the appropriations authorization, especially as to Cambodia, I think it read something like "Appropriations may be made in South Vietnam, in Laos, in Thailand," but it made no reference to Cambodia.

I got into a legislative frustration, because here, funds were being expended for Cambodia and yet, I couldn't find anything except by

a real stretch of the law that any funds could be expended for Cambodia and I am wondering if remedial legislation in the form that came in the supplemental corrected that situation?

Secretary LAIRD. No; it did not. It was not necessary to correct that situation because there is a provision in the law that provides for Presidential Determination and notification of the Congress within 30 days and the first grant that was made to Cambodia in fiscal year 1970 was made under the authority of the Presidential determination. The first grants totaled $8.9 million in fiscal year 1970. Subsequent Presidential Determinations, in fiscal year 1971, were for $40 million, $50 million, and $10 million. But the substantial grant of $185 million that was finally made was made in the fiscal year 1971 supplemental appropriation. It consisted of $100 million to replace the fiscal year 1971 funds used in Cambodia under Presidential Determinations, and $85 million for additional military assistance.

Mr. GALIFIANAKIS. But the Presidential authority to do that came after—that was just last year, was it not?

Secretary LAIRD. No, the Presidential authority has always been there in the law. That is still in the law—Presidential Determination and Congress is notified within 30 days.

Mr. PASSMAN. Military assistance, like economic aid, is approved on an illustrative basis anyway and you have the right to transfer from one nation to another, justify for one nation, blank it out and give it all to the adjacent nation, if General Warren and Admiral Moorer and the Department of Defense decide that it is in the best interests of our national defense.

Secretary LAIRD. Well, the country's feelings are established in these hearings.

Mr. PASSMAN. But by special determination you can exceed the amount and the program is on an illustrative basis.

Secretary LAIRD. It is on an illustrative basis and we try to keep this committee, as well as the other committees involved, informed of any change, but we try to stay within those ceiling figures set forth in these hearings.

Now, in fiscal year 1970 in order to get the $8.9 million in the Presidential Determination, it was necessary to subtract from the country ceilings we had given this committee. Then we notified this committee and the Congress of the changes that were made within those ceilings in order to get the $8.9 million, which was the first military assistance that was made available as we brought Cambodia once again into the military assistance program.

COUNTINUING MILITARY ASSISTANCE IN SOUTHEAST ASIA

Mr. GALIFIANAKIS. When do you envision the disengagement of our involvement in Indochina? What is your best estimate?

Secretary LAIRD. As far as military assistance is concerned?

Mr. GALIFIANAKIS. Yes.

Secretary LAIRD. I don't envision it for a long time. I believe we will be going forward with a military assistance program in that area of the world for some time to come.

Mr. GALIFIANAKIS. Do you have an estimate of the number of American troops that would be involved in that type of assistance?

Secretary LAIRD. As far as troop presence is concerned, I envision a diminishing role for American military forces in that area. We have already, since I have been Secretary of Defense, issued orders to reduce the American military presence in East Asia by over 350,000 by this June, and there will be some further reduction in the American military presence.

I thought your question was directed to whether military assistance would go forward.

Mr. GALIFIANAKIS. I was interested in both. I was further concerned about whether you envisioned that South Vietnam will end up being the type of bulwark that Korea is, where we do have a continuation of presence of American troops there.

Secretary LAIRD. I would anticipate we would have a military assistance mission in South Vietnam for some time to come. There is one point I must make on this issue. The President has offered, as one of the points in the Paris negotiations, complete and total withdrawal of all U.S. forces from Vietnam. This is a matter for negotiations—that particular point. I do not want to give the impression that I am backing away from the negotiating point that the President has made, because that is something that would be subject to negotiation as far as mutual withdrawal of forces in that area is concerned. But I would anticipate that we would have a military assistance advisory group in South Vietnam. I would not anticipate that it would be as large or maintained for as long a period as the military presence has been maintained in Korea.

Mr. GALIFIANAKIS. Thank you very much.

Mr. PASSMAN. Thank you very much.

Thank you, Mr. Secretary.

WITHDRAWAL OF U.S. FORCES FROM SOUTH VIETNAM

Mr. Secretary, as you know, this is a nonpartisan committee. We operate somewhat like the Foreign Affairs Committee of the House; we have with us a distinguished former member of that committee and what we want to do is the right thing. We want to keep the record straight and let it speak for itself.

It is my understanding that in January 1969 there were 542,000 U.S. troops in Vietnam. Is that correct?

Secretary LAIRD. That is correct.

Mr. PASSMAN. It is anticipated now that on May 1 there will only be 284,000 in Vietnam?

Secretary LAIRD. That is correct.

Mr. PASSMAN. A reduction of about 50 percent, and it is continuing to decline?

Secretary LAIRD. We will meet or beat that May 1 figure of 284,000.

Mr. PASSMAN. That is a correct statement.

Secretary LAIRD. That is correct.

Mr. PASSMAN. The President has a very positive plan for withdrawing combat troops and he feels that to make that plan known possibly would upset the plan and it couldn't be carried out?

Secretary LAIRD. He feels it would be a mistake to lay the entire plan on the table at this particular time, as long as there is any possibility of a negotiated settlement. The fastest way to stop and to reduce American involvement in Vietnam is in the negotiating route.

His October 7 proposal, a five-point proposal for peace, is still the fastest way to end American involvement and to stop the shooting and the killing in Vietnam.

The Vietnamization program does not take the place of negotiations. It complements negotiations and, should negotiations fail, it gives us a way to disengage Americans, to give the capabilities to the South Vietnamese to defend and maintain their own security.

Mr. PASSMAN. In other words, putting it in my words—I don't know whether the committee concurs or not—it would be somewhat like General Warren giving the enemy 24-hour notice as to what time he was coming and where he would arrive and what he would have with him. That is why the President's withdrawal plans cannot be completely publicized. Isn't that just about the way we can understand it, if we want to get away from politics and look at the record?

Secretary LAIRD. That is correct, and the President, I think, has gone very far in the comments that he has made. Each time he has made one of these announcements—we have had six of them—we have deliberated on those announcements and made the troop ceiling well in advance of the date set by the President. The President has stated on several occasions that he hopes to maintain this average rate and perhaps increase it. The average rate, of course, has been 12,500 per month as far as the troop reductions are concerned, since the first Vietnamization announcement was made, and he is hopeful and he has so stated. He has a plan. The plan has been submitted to him; it has been approved by him and we are going to go forward in accordance with that plan.

Mr. PASSMAN. And you could put confidence in the plan based upon the fact that in a little over 2 years the total number has been cut—will be by May 1—by around 50 percent?

Secretary LAIRD. The President will make another announcement, probably in April, covering a seventh increment.

Mr. PASSMAN. Let's now get to the cost of it.

U.S. COSTS IN SOUTHEAST ASIA

Will you place in the record, Mr. Secretary, the total cost of our presence in Indochina 1967 through 1971—that is 5 years—with the estimate for fiscal year 1972?

Secretary LAIRD. I will, sir.

Mr. PASSMAN. Include another column dealing entirely with our expenses in South Vietnam 1967–71, economic and military, and what you contemplate to be the expenditures in 1972.

(The information follows:)

SOUTHEAST ASIA OUTLAYS

[Dollars in billions]

	Full costs	Incremental costs
Fiscal year:		
1967	$20.1	16.2
1968	26.5	20.0
1969	28.8	21.5
1970	23.1	17.4
1971	15.3	12.0
1972		

Overall accounting records are not maintained on an area or country basis. However, the data in the following table reflect estimated amounts included in military functions appropriations for support of free world military forces in South Vietnam, i.e., Military Assistance, Service-Funded. These data are included as a portion of the overall Southeast Asia outlays.

Support of free world forces in South Vietnam—military assistance

Fiscal year:	Dollars in billions
1967	1.5
1968	1.5
1969	1.9
1970	1.9
1971	2.0
1972	

Economic assistance to South Vietnam (through AID)

Fiscal year:	Dollars in millions
1967	540.7
1968	440.5
1969	348.6
1970	[1] 509.0
1971	[1] 536.6
1972	

[1] Gross sums.

Mr. PASSMAN. The total cost of foreign aid and military assistance in Vietnam has been cut about in half, has it not, in the past 2 or 3 years?

Secretary LAIRD. Yes, Defense outlays for the war, including military assistance, will have been cut by more than that, through fiscal year 1972 but these figures in this table will point that out.

Mr. PASSMAN. Thank you. I thought it would be better to reflect the true facts in the record.

Now, I don't want to appear too pro-foreign aid because I have never been a foreign aid enthusiast, but I recognize that we are in some trouble and I want to be a responsible member of Congress. I would hate to think that this committee, somewhere along the way, would not make reductions in the budget requests, so don't leave with your enthusiasm too high. But the committee will be responsible.

Secretary LAIRD. You have always been responsible, Mr. Chairman.

MAP AND FMS FUNDS FOR FISCAL YEAR 1971 AND FISCAL YEAR 1972

Mr. PASSMAN. If we look at the military assistance request total for fiscal year 1971, it was $690 million, is that correct?

Secretary LAIRD. That was the total request for grant MAP NOA last year.

Mr. PASSMAN. For fiscal year 1971 it was $690 million?

Secretary LAIRD. That is correct.

Mr. PASSMAN. The 1972 estimate is $705 million?

Secretary LAIRD. That is correct.

Mr. PASSMAN. Which is an increase of $15 million?

Secretary LAIRD. That is correct.

Mr. PASSMAN. Now, to take up foreign military sales, the appropriation for fiscal year 1971 was $700 million, and you are requesting for fiscal year 1972, $510 million.

Secretary LAIRD. That is correct, Mr. Chairman, when you include the $500 million appropriated separately for sales to Israel in fiscal 1971.

Mr. PASSMAN. So as it applies to military sales, there is a reduction of $190 million for fiscal 1972 below that of fiscal 1971?

Secretary LAIRD. That is correct.

OTHER U.S. ASSISTANCE OF A MILITARY NATURE

Mr. PASSMAN. Mr. Secretary, it is my understanding that the fiscal year 1972 budget estimates for these two programs do not include funds for Laos, Thailand, and Vietnam, the NATO infrastructure, the support of free world forces in Vietnam and International Military Headquarters, is that correct?

Secretary LAIRD. NATO Infrastructure and International Military Headquarters are not military assistance.

Mr. PASSMAN. But they are under the military?

Secretary LAIRD. That is right. They are not included, however, in this request I am presenting to you today. The other items to which you refer are included in the defense budget.

Mr. PASSMAN. Place in the record the total.

Secretary LAIRD. I will.

(The information follows:)

Military assistance—Defense budget fiscal year 1972—programs

	In millions of dollars
Support of other nations	$2,230.8
Vietnam	1,783.9
Korea (in Vietnam)	
Thailand	
Laos	
Other programs	92.3
International Military Headquarters	72.3
NATO infrastructure	20.0
Total	2,323.1

MILITARY ASSISTANCE ESSENTIAL TO NIXON DOCTRINE

Mr. PASSMAN: Mr. Secretary, is it not true that the majority of this request is needed to implement the Nixon doctrine?

Secretary LAIRD. There is no question about that, Mr. Chairman, and if we are going to make the Nixon doctrine work—if we are going to reduce the American military presence in Asia, to encourage the partnership strength that is the cornerstone of the Nixon Doctrine and to go forward with our programs of negotiation—these funds are needed and necessary.

Mr. PASSMAN. Simply stated, the important part of the Nixon Doctrine, is that we are willing to furnish the equipment to modernize their countries' military forces, but they are going to furnish the men and do the fighting in the future. It's just that simple, isn't it?

Secretary LAIRD. That is it.

Mr. PASSMAN. Thank you. I think the American people will buy it. I think that is what they have been pleading for for a long, long

time. I am sure all people have been working toward that goal and to realize that we are going to bring our boys home from around the world gives me some encouragement.

U.S. TROOP WITHDRAWAL FROM ASIA

I had a meeting with President Park in Korea. I delivered your message to the President and, of course, you immediately delivered on that commitment which is supported by the Congress. It was obvious that he realized President Nixon means business, that we are going to modernize their forces but we are going to start moving our men out. So some of you must have made it very obvious to the President and the military leaders that you were going to start bringing the boys home. Is that still in effect?

Secretary LAIRD. It is in effect and we will have reduced authorized strength by 20,000 by the end of this fiscal year.

Mr. PASSMAN. That makes sense and I believe the American people support that.

Secretary LAIRD. The greatest reduction made at any time in the last 10 years.

Mr. PASSMAN. As long as you travel in that direction, I can't quarrel with you.

Secretary Laird, would you place a list in the record showing the number to be reduced and in what country reductions will be made? If that information is classified, furnish the committee the information. We are going to let you judge what is classified and what is not classified.

Secretary LAIRD. I think we can give you a figure on the reductions by country that is not classified, generally up through the end of this fiscal year.

(The information follows:)

IMPLEMENTATION OF THE NIXON DOCTRINE IN ASIA

In the past 2 years, plans have been announced to reduce the U.S. presence in Asia by more than 300,000 personnel. This reduced presence is being replaced by improved capabilities of nations in the area, both through their own efforts and through U.S. assistance. The approximate personnel reductions, by country, include:

South Vietnam	260,000
Korea	20,000
Japan	12,000
Thailand	16,000
Philippines	9,000

SAVINGS RESULTING FROM U.S. TROOP WITHDRAWAL

Mr. ROYBAL. Will that also reflect savings, if there are any?

Secretary LAIRD. Yes; the other chart I have just put in the record does show savings, but they could be reflected here too if you like.

Mr. PASSMAN. If you will, put it in the record.

(The information follows:)

SAVINGS ASSOCIATED WITH REDUCED U.S. PRESENCE IN ASIA

Through use, in part, of appropriate costing factors, it would be possible to estimate annual savings from actions in Korea, Japan, and the Phillppines, taken

together, as being on the order of $250 million annually. To some extent, however, individual actions associated with reductions in Japan and the Philippines could be attributed to the declining U.S. involvement in Vietnam. Such savings, and savings associated with reductions in South Vietnam and Thailand, would be included in the reductions in outlays for support of the war. Under such circumstances, it is considered more meaningful to consider the overall results of the policy direction. As indicated earlier, the incremental costs of the war will be reduced from $21.5 billion in fiscal year 1969 to $12.0 billion in fiscal year 1971, a reduction of $9.5 billion in 2 years.

In the same 2-year period, overall U.S. military strength will be reduced from 3,459,000 on June 30, 1969, to 2,699,000 on June 30, 1971, a reduction of 760,000 personnel. DOD civilian strength is reduced by 172,000 during the same 2-year period. The savings associated with these reductions have been fully considered in the development of the fiscal year 1972 program, which, of course, also reflects the effects of inflation and other program changes.

MILITARY SALES CREDITS FOR ISRAEL

Mr. PASSMAN. Mr. Secretary, last year we provided $500 million in credit sales to Israel. In fiscal 1972, you are requesting an additional ——— for the same purpose.

Secretary LAIRD. That is correct. The program last year included many items that we financed under authority which has been given to me as Secretary of Defense. I can authorize sales on payment terms within 120 days after delivery of the defense articles, so I was using that statutory authority for a period of time when I had no other authority to use.

Mr. PASSMAN. Mr. Secretary, in the justifications it is mentioned that an additional request for funds for credit sales to Israel might be needed in fiscal year 1972. If certain situations still exist, such would be the case.

Do you have any idea at this time whether additional funds will be needed?

Secretary LAIRD. I would prefer to cross that bridge if we get to it. We are watching the situation in the Middle East very carefully. As you know, the Soviet Union has put in about ——— worth of equipment, into Egypt over the last 3 years. ——— They have, with their own fliers there, ———. We are watching the situation carefully. We do not want the balance to get out of line, but I would not hesitate, if the situation warrants, to come up and talk to you and talk to the Members of the Congress should we find that additional authority is needed.

Mr. PASSMAN. Mr. Secretary, I think more can be accomplished than justifying this program by stating the facts in simple terms as they are, because many people read these hearings who are not members of the Congress and in a great many instances the hearings deal with technical material and it doesn't impart the true meaning.

Now, with respect to military sales, I want to make this statement in the form of a question: The record is abundantly clear that all nations, large or small, rich or poor, are determined to have some type of a military posture and if these nations do not have the capacity to manufacture the military hardware that they desire, then they are going somewhere on the world markets and purchase that equipment, is that not a statement of fact?

Secretary LAIRD. It certainly has been proven in the last few years that this has taken place.

SUPPLY OF ARMS BY OTHER NATIONS

Mr. PASSMAN. And we are not the only nation in the world who is actually manufacturing and selling equipment to meet the needs of the nations who demand to purchase this equipment?

Secretary LAIRD. That is correct.

Mr. PASSMAN. And many other nations—to name a few, United Kingdom, France, and Russia, are becoming large suppliers to some of the countries that formerly purchased equipment from the United States.

Secretary LAIRD. That is correct, and Canada, Italy, and Germany also enter in this particular field.

Mr. PASSMAN. And I guess they approach it on the basis that these nations are going to buy military equipment and they feel that it is a way to make a profit out of a manufactured commodity and to also make it possible for them to pay taxes into their governments.

PROPORTION OF U.S. ARMS SALES DECLINING

Secretary LAIRD. Mr. Chairman, this is the trend, and back when I made my first appearance before this committee we were out ahead as far as sales were concerned, over Germany, the United Kingdom, Canada, France, and Italy. But if you take those countries this past year, the United Kingdom and France alone sold $1.88 billion worth of equipment, while the U.S. sales declined to $1.5 billion, worth of equipment.

Mr. PASSMAN. Compared to how much 10 years ago for the United States and the same nations?

Secretary LAIRD. I would be glad to put a comparison in the record.

(The information follows:)

COMPARISON OF MILITARY EXPORTS—UNITED STATES, FRANCE, AND UNITED KINGDOM FOR 1960–70

Although precise data for military exports by France and the United Kingdom for 1960 are not available, the combined annual military exports of these two countries during the late 1950's and early 1960's did not exceed ——— per year during the period. U.S. military exports for 1960 totaled approximately $300 million.

During fiscal year 1970 France and the United Kingdom made military sales in the amounts of ——— respectively—for a total of ———. Total U.S. military exports during fiscal year 1970 were $1.5 billion.

ARMS FOR SECURITY

Mr. PASSMAN. I know you support the view of this committee and certainly the humble individual who has the privilege of chairing this committee, that we would like to see the day come when all nations could afford to cease buying military hardware and get along with other needed programs.

Secretary LAIRD. That is correct.

Mr. PASSMAN. But until that day comes when those nations and our Nation can have reasonable security from the enemies from without, then some type of military assistance sales program will have to be continued to those nations.

Secretary LAIRD. It certainly will, and I think the best example of that is right in the Middle East today.

Mr. PASSMAN. It is abundantly clear—at the expense of being repetitious—we either sell to them or lose them as a customer. Not only the military hardware they say that they need, but for other commodities they are presently buying from us.

Secretary LAIRD. There is no question that it could have that long-term effect.

FMS CREDIT APPROVALS AND TERMS

Mr. PASSMAN. Under the military credit sales program, as I understand it, these applications for credit are scrutinized by General Warren and his staff with a fine-tooth comb, and that these sales are made only after General Warren's office, with your approval and that of Admiral Moorer, are convinced that these people can meet the terms. It is at that point that you consummate the sale, is that correct?

Secretary LAIRD. That is correct. As far as our role in this is concerned, I believe it should be pointed out that State plays a very major role in this, too, the Department of State.

We have very close cooperation with the Department of State.

Mr. PASSMAN. The average terms of military credit sales is approximately 7 years?

Secretary LAIRD. The average term is about 7 years, Mr. Chairman. We have authority presently to go to 10, but the average is seven, that is correct, ———.

Mr. PASSMAN. I was going to say with the possible exception of one country. Under the military credit sales program they pay the prevailing interest rate on term sales?

Secretary LAIRD. That is correct.

Mr. PASSMAN. If the prevailing interest rate is 7 percent, then that is what the nation buying the equipment pays, is that correct?

Secretary LAIRD. That is correct. We normally charge interest at the cost of money to the Treasury.

Mr. PASSMAN. So there is no concession made at any point, with the exception of the one nation that we indicated, that you know of at this time?

Secretary LAIRD. That is correct, sir. I can think of no other concession.

Mr. PASSMAN. We know of one exception. If there are any others, put them in the record.

Secretary LAIRD. There are no others now but, Mr. Chairman, we are testifying here today and in the legislation which is being sent you, the authorization legislation, there will be some recommendations for changes in that area. I can't testify on that today but there will be some changes recommended.

Mr. PASSMAN We are dealing with the present.

Secretary LAIRD. That is correct.

Mr. PASSMAN. The questions I have asked and your responses thereto have been in the affirmative?

Secretary LAIRD. That is correct.

TRANSITION FROM GRANT AID TO SALES

Mr. PASSMAN. I wonder if the Secretary feels that as time goes on, and the nations we have helped very substantially with grant and

economic aid of different types create a healthy economy, that your plan would be to shift from military grant aid over to military credit sales?

Secretary LAIRD. Yes.

Mr. PASSMAN. Do you have any plans for the immediate future that would move them out of the military grant aid category into the military credit sales category?

Secretary LAIRD. That is the long-term goal that we have in mind, Mr. Chairman.

I do not believe that it can be achieved within the next 2 or 3 years, however.

Mr. PASSMAN. Of course, 2 or 3 years is not too long when we realize this foreign aid program has cost over $200 billion if you include the money we have given away.

This would be the plans for the future as far as you are concerned, where their economy can justify it, to sell them the material rather than give it to them?

Secretary LAIRD. To go to the credit sales program.

U.S. ECONOMIC AID ENABLES RECIPIENT NATIONS TO PURCHASE MILITARY EQUIPMENT

Mr. PASSMAN. Knowing the Secretary as I do, having had the great privilege of serving with him in the House—and these other witnesses I have dealt with for so many years, I want to make this observation: I want to be factual and if I am wrong I want to be corrected.

All nations, large or small, rich or poor, earn dollars, or convertible currencies, out of their own exports, do they not?

Secretary LAIRD. That is correct.

Mr. PASSMAN. And all of these nations, large or small, rich or poor, are determined to have some type of a military regime. Would that be a correct statement?

Secretary LAIRD. That essentially is the case. I can't think offhand of any exceptions. Admiral Moorer, can you think of any exceptions to that?

Admiral MOORER. As a matter of fact, I can't. I know of none, Mr. Chairman.

Mr. PASSMAN. Thank you.

Now, it is perfectly obvious that many nations with which we have an economic aid program, much of it a grant program, that these grants allow them to use their earnings to pay for military equipment does it not?

Secretary LAIRD. That is correct. It could be so used.

Mr. PASSMAN. I am willing to accept that, it could be used. You can't have it both ways. It is a sure thing if we are pouring grant aid into these countries, that will release to them some of the dollars in convertible currencies that they earn to pay for military equipment they may procure. I want to be fair but I am not unmindful it wouldn't make a particle of difference whether you gave them military or economic grant aid, it is one and the same thing. If you give them money to pay for the commodities they need that releases what they earn to pay for the military portion. I just want to keep the record straight. If it appears I am being too harsh about it, so indicate and I will make the corrections.

Secretary LAIRD. Mr. Chairman, we are making and moving in the direction of going from grant aid to credit sales. I have several examples of movement in that direction. It might be helpful to put those examples of that movement and that direction in the record at this point.

(The information follows:)

TRANSITION FROM GRANT AID TO SALES

Example of countries that have transitioned from military grant aid to sales, both cash and credit, are:

[In millions of dollars]

	Grant aid	Sales (combined cash and credit)
Greece:		
1967	72.2	0.8
1971	20.0	55.0
China:		
1967	85.0	4.4
1971	20.0	52.0
Iran:		
1967	34.9	38.9
1971	2.4	101.5
Brazil:		
1967	12.2	6.1
1971	.9	20.0

Mr. PASSMAN. Please do, Mr. Secretary, but I don't want to repeat myself. I have had the privilege of sitting on this side for some 19 years, 17 years as chiarman, and we do know that when you pick up the checks for the commodities they need and would normally spend their dollars for, that releases their dollars to buy military equipment. We are dealing with some of the Latin American countries. It is perfectly obvious they have made some rather expensive purchases and the aggregate goes into the hundreds of millions of dollars. I question whether they would have been able to purchase equipment to the extent that they did, if it hadn't been for a very substantial economic aid program from our country, including, of course, the Inter-American Development Bank. As long as it is factual, that is all we want.

U.S. BASIC RIGHTS TENURE IN OKINAWA

Mr. Secretary, even though it is currently planned to maintain our base rights in Okinawa, upon reversion of the Islands to Japan, is it not possible at some future date we could lose the right to maintain bases there, as has happened in past years in many other countries?

Secretary LAIRD. That is correct. We don't anticipate that that will happen, but it is always a contingency for which we must plan.

REPUBLIC OF CHINA IS IMPORTANT U.S. ALLY

Mr. PASSMAN. As far as I am concerned, I am not any more pro one friendly nation than I am pro any other friendly nation, but as I look at the Republic of China, it would appear that we have a tremendous investment, some $5 billion invested in that country, and there has been a lot of publicity in the papers about the Republic of China perhaps being on its way out because more nations are

now recognizing Communist China. In the light of reversion of Okinawa to Japan, and the fact that we have lost several bases around the world, I wonder if we still consider the Republic of China, their friendship and their willingness to cooperate with us on almost every score, as important now as in the past?

Secretary LAIRD. It is very important. I think that we can count on China. We have in this program just under ——— for grant aid, and we are anticipating credit sales of ——— in fiscal year 1972. I believe that these amounts are needed. I wish it were more, but this is the best we could do within the program limits that we have.

Mr. PASSMAN. But we do consider them a staunch ally, and their importance to the security of our country and free world nations is just as important now as it has been in the past.

Secretary LAIRD. It is perhaps a little bit more important from the standpoint of a defense planner, because of the changes that we are making in East Asia to include Okinawa. I don't want to underestimate that. As far as China is concerned, there is every reason for me to place a greater reliance on the need and necessity for our arrangements with China.

Mr. PASSMAN. We thought enough of the friendship of the Republic of China and the real estate there to make an investment of some $5 billion to build them up, where they could support themselves economically, is that correct?

Secretary LAIRD. Let me just check the figure. I assume that that is approximately correct.

Mr. PASSMAN. As far as you know, there is no present plan to pull the rug from under the Republic of China?

Secretary LAIRD. Not as far as the Department of Defense is concerned, and as far as this Administration is concerned, there is not.

Mr. PASSMAN. I ask these questions because we read so much in the papers about this situation.

Secretary LAIRD. I know as far as military assistance is concerned, we have invested over $2½ billion in China.

Mr. PASSMAN. In military assistance alone. I believe that the total should be in the record——

Secretary LAIRD. I have the military assistance figure, but I don't have the economic assistance figure.

Mr. PASSMAN. Let's use the total figure. It is in excess of $5 billion.

Mr. SHRIVER. Will you yield a moment?

Mr. PASSMAN. I yield to the gentleman from Kansas.

Mr. SHRIVER. This is what has made it difficult for many of us to understand why China didn't contribute in the Vietnam operation with people and military assistance to South Vietnam. We have put in so much money, billions and billions of dollars, and there was no one from that country down there as one of our allies.

Secretary LAIRD. Decisions on troop contributing countries were made by the previous Administration. ———

Mr. SHRIVER. I understand it wasn't in your time, but it makes it pretty difficult for many of us to understand why we are continuing to put in so much money for military and economic assistance for Formosa.

Admiral MOORER. May I speak to that, sir. ———

Mr. SHRIVER. I understand that, but there are many things that came up ——— but we are still putting in a lot of military assistance and food for peace money into Nationalist China.

Mr. PASSMAN. The facts are, as we would say in Louisiana, they were champing at the bit to get into this. ———.

Secretary LAIRD. That is correct.

Mr. PASSMAN. In all probability the Republic of China ——— is that a statement of fact?

Mr. RIEGLE. Can't they contribute money?

Mr. PASSMAN. I happen to know ———. Let me see if this is correct. The amount of assistance we are giving to China today, economic and military, is only about 5 to 6 percent of what we were giving at the peak of the program, is that correct?

DOWNWARD TREND OF MAP TO REPUBLIC OF CHINA

Secretary LAIRD. That is correct. We are down to ——— in fiscal year 1972.

Mr. PASSMAN. Against some $200 million at one time in military assistance per year, is that correct, so that would be ——— percent, and there is no economic aid program at all for the Republic of China, is that correct?

Secretary LAIRD. Let me supply the total figure, but fiscal year 1966 through fiscal year 1969, the deliveries ran between $55 and $115 million.

Mr. PASSMAN. Per year?

Secretary LAIRD. Per year.

Mr. PASSMAN. Or $2.5 billion over the period of the program.

Secretary LAIRD. That is correct.

Mr. PASSMAN. So percentagewise, grant military aid today is very, very small compared to the annual total that we used to give them.

Admiral MOORER. That is correct.

Mr. PASSMAN. Let's be fair to our country as well as to the Republic of China. The purpose of assisting was so they could build up an economy and become self-supporting, is that correct, Mr. Secretary?

Secretary LAIRD. That is correct.

Mr. PASSMAN. Because of our aid they have built up a very strong economy, and they have become self-supporting, and they have now started some aid programs of their own, helping some of the nations that we at one time helped, is that correct?

Secretary LAIRD. That is correct, and they are pushing on their foreign military sales purchases. They have gone to an estimated ——— in 1971 and ——— in 1972 is the estimate, so they are increasing their military purchases substantially.

Mr. PASSMAN. And if they are important to us, then the record should indicate, and I believe they are spending a larger percentage of their GNP for the military than we are in this country, aren't they?

Secretary LAIRD. As far as the gross national product is concerned, that is correct. Those figures that I just gave you were cash and credit sales as far as China is concerned.

Mr. PASSMAN. And today they are one of our cash customers, including military sales.

Secretary LAIRD. That is correct.

Mr. PASSMAN. And the ——— that you have in your request this year for military assistance is basically for parts and maintenance, isn't it, on equipment that we had previously either given them or sold them?

Secretary LAIRD. Yes, but that ——— is the grant aid, not for sales. We estimate credit sales of about ——— for fiscal year 1972.

(Discussion off the record.)

Mr. MCEWEN. Do we have figures on what percentage of the gross national product is devoted to military?

Mr. PASSMAN. 9.4 percent for the Republic of China. Let's put that in the record for the various countries.

Secretary LAIRD. In the justifications we have the percentage for each country.

NEW INTERNATIONAL SECURITY ASSISTANCE LEGISLATION

Mr. PASSMAN. Mr. Secretary, I believe the budget for fiscal 1972 has lumped military assistance, foreign military credit sales and supporting assistance under one heading called "International Security Assistance," is that correct?

Secretary LAIRD. That is correct.

Mr. PASSMAN. How many items other than the ones I have mentioned will be in this package?

Secretary LAIRD. No others.

Mr. PASSMAN. I know over in the military we have economic aid that used to be carried in this bill and it is now in the military assistance portion.

Secretary LAIRD. There will be the police support.

Mr. PASSMAN. That was in technical aid previously?

Secretary LAIRD. That is correct, police support, and there is probably one other.

Mr. PASSMAN. Public safety?

Secretary LAIRD. Public safety is what I meant by police support. Then too, there will be a contingency fund, Mr. Chairman, which probably will be in that area for $100 million, so that it will be those two, the public safety, and the $100 million for contingency.

USE OF EXCESS MILITARY EQUIPMENT

Mr. PASSMAN. Excess military equipment, is that military equipment that is no longer usable for our own defense forces?

Secretary LAIRD. That is correct.

Mr. PASSMAN. And it is excess?

Secretary LAIRD. It is not declared excess if it has any use in the U.S. forces.

Mr. PASSMAN. So when we say excess, we mean unusable by our military forces.

Secretary LAIRD. That is correct.

Mr. PASSMAN. As I understand it, excess military equipment cannot to sold to civilians.

Secretary LAIRD. That is correct if it is not demilitarized.

Mr. PASSMAN. So there are two ways to dispose of excess military equipment. One is to take the recipient nations receiving other types

of aid, including military, and make available to them the excess equipment, which serves the same purpose as new procurement. That is one use we can make of it, is that correct? And denied that right, it is then strictly sold as junk metal for perhaps one percent of its original acquisition cost?

Secretary LAIRD. That is the only other use we would have. We can either sell or grant it to nations having validated military requirements or demilitarize the equipment and sell it as scrap.

Mr. PASSMAN. So you either make it available to the nations, or junk it. Isn't it also true that much of the military excess equipment that we allocate is already located in the recipient nations?

Secretary LAIRD. In the recipient nations or in the area.

Mr. PASSMAN. Or in the area, which means that in country B you may have a military equipment program and you have excess equipment located there at the present time. So if you prohibit General Warren from allocating this equipment to the nation, you would have to scrap that equipment, maybe sell it for junk at 1 percent on the dollar, then bring in new equipment on some boat at perhaps a subsequent date?

Secretary LAIRD. That is correct. The only use that can be made of it is either by selling it or disposing of it in the country, or in the area, or scrapping it as junk.

Mr. PASSMAN. But you either allocate it, if there is a need and you have justified the need, or else you are going to have to procure new equipment.

Secretary LAIRD. That is correct.

Mr. PASSMAN. So actually in most instances it serves the same purpose as if you were actually buying and delivering equipment.

Secretary LAIRD. That is why we price it that way.

Mr. PASSMAN. I know. I thought we had better make a record on this, because it just doesn't make sense that you shouldn't use it.

Secretary LAIRD. Mr. Chairman, I think it should be understood that if this equipment doesn't meet a valid grant aid or sales requirement for the country that is involved, we won't approve it.

Mr. PASSMAN. It can only go to a country where the country has been approved for military assistance.

Secretary LAIRD. Where it has been approved for military assistance and it is part of the 5-year program that we had planned for that particular country.

Mr. PASSMAN. On that score it is very tight. To me it is inconceivable that you would have equipment in country B and they had a need for it, and under some type of legislation you would be unable to allocate this equipment, so you have to junk it in that country, sell it for maybe 1 percent on the dollar as scrap metal, then turn right around and requisition new equipment for the same nation.

Secretary LAIRD. Of course we sell this equipment, too. We are selling excess equipment to countries such as Israel.

Mr. PASSMAN. I was going to get into that with my next question.

Of the total annual excess equipment, what percentage is allocated to approved nations for military assistance, what percentage of the total is sold for cash and what part is sold on terms?

Secretary LAIRD. By country?

Mr. PASSMAN. Not necessarily, but the aggregate.

Secretary LAIRD. We can put it in at this point.

Mr. PASSMAN. If it is not classified we would like to have it by country.

Secretary LAIRD. We will provide what is unclassified.

Mr. PASSMAN. We would like the aggregate so we know the total that is available.

Secretary LAIRD. We can also show you the legal value, too.

Mr. PASSMAN. That is what we actually want. Furthermore, we want the amount that is actually scrapped, because of some limitation in the law.

Secretary LAIRD. We can supply that.

(The information follows:)

STATUS OF EXCESS DEFENSE ARTICLES IN FISCAL YEAR 1971

Material in DOD inventories excess or potentially excess—that is, apparently excess but not yet finally screened against all possible requirements—averages about $7 billion at acquisition cost which includes material downgraded to scrap. Of this, about $500 million, again at acquisition cost, annually meets MAP (grant aid) requirements. So far for fiscal year 1971, we have allocated $192 million at acquisition cost, or $64 million at legal value. There is currently available about $200 million at acquisition value, or about $67 million at legal value, in additional equipment awaiting our decision as to whether it should be allocated to MAP. As of the last date of record for fiscal year 1971, we had sold excess materials having an acquisition cost of $950 million; in addition to this, we sold 368,000 tons of scrap for which we cannot determine the acquisition cost. Of the $950 million, about $130 million represents military sales to foreign governments, primarily ships; the remainder represents sales to private buyers.

LEGAL VALUE OF EXCESS EQUIPMENT

Secretary LAIRD. I think it would be well to put in not only the acquisition cost, but also the legal value because the legal value is quite different from the acquisition cost.

Mr. PASSMAN. That I understand. You have a value placed upon this equipment.

Secretary LAIRD. The legal value is one-third of the acquisition cost.

Mr. PASSMAN. Define for the record what you mean by legal value which is one third of the acquisition cost.

(The information follows:)

DEFINITION OF LEGAL VALUE

Section 8 of Public Law 91-672 provides that, for purposes of the Foreign Assistance Act of 1961, as amended, the "value" of excess defense articles means not less than 33⅓ percent of the amount the United States paid at the time the excess defense articles were acquired by the United States.

Mr. PASSMAN. Is that figure by act of Congress?

Secretary LAIRD. Yes.

Mr. PASSMAN. Was it the generals and admirals in the Congress who came up with that formula?

Secretary LAIRD. I think it was probably the Department of Defense that coined the phrase, and the Congress that approved it.

Mr. PASSMAN. That is fair enough if the Congress approved your evaluation.

Secretary LAIRD. It is written into the act that has been approved by the Congress. You asked me where it came from. I think it probably

did originate in the Department of Defense and was approved by Congress as written into the Act.

Mr. PASSMAN. I would think that the military people would know more about its actual value than I would.

Secretary LAIRD. The legal value as approved by the definitions is one-third of the acquisition cost.

Mr. PASSMAN. What do you do with equipment where it actually has a value of maybe 5 percent of the acquisition cost? In what category do you place that? I am not accepting, as fact, that all of your equipment is worth 33 cents on the dollar. Are you forced to to place that evaluation, whether it is worth it or not?

Secretary LAIRD. If it is in this program, we are forced to place that valuation on it.

Mr. PASSMAN. Do you have any equipment that would have possibly a lower value by any fair evaluation?

Secretary LAIRD. I think it averages out pretty well, Mr. Chairman, and so I think the average works out all right, but there are certainly equipments that have a lower value than the so-called legal value.

Mr. PASSMAN. This may not be important, but I should think some of your equipment may be worth 75 percent of acquisition cost where others would be worth 5 percent.

Secretary LAIRD. But it averages out pretty well, Mr. Chairman.

Mr. PASSMAN. What if a nation decides, "I want a boatload of this over here" where your people say it is worth only 6 percent on the dollar and they don't want any that is worth 75 percent on the dollar? I am talking about the individual items, because you can't make them take some of the nuts to get some of the bolts, can you?

Secretary LAIRD. I think we would, Mr. Chairman, but we try to get them not to take equipment that they can't use.

STATUTORY CEILING ON EXCESS EQUIPMENT

Mr. PASSMAN. That is what I had in mind. It is your program and not mine. If the ceiling on excess equipment should become too rigid, and at a subsequent date the administration, with the advice of the Defense and State Departments felt that you would have to increase military equipment for certain nations on account of a communist threat, then you would just have to provide the new equipment that the law permits you to do, rather than give them excess, is that correct?

Secretary LAIRD. That would be correct, Mr. Chairman. Under those terms as you outlined them, that would be correct.

(Discussion off the record.)

Secretary LAIRD. Mr. Chairman, our ceiling this last year has been $100 million. We are asking for an increase in that ceiling to $200 million, and I hope that this committee will approve that. I think that this is a good proposal. That ceiling is based upon the language of Public Law 91-672, and the value definition that is used in that public law is the definition that is required to make up the $100 million and to make up the $200 million we hope you approve for the next fiscal year.

(Discussion off the record.)

TOTAL U.S. FOREIGN ASSISTANCE FIGURES

Mr. GALIFIANAKIS. Mr. Chairman, may I ask a question?

Mr. PASSMAN. Surely.

Mr. GALIFIANAKIS. Do you have a compilation of all of the various programs, for instance, moneys that go to Formosa that are consolidated and broken down with the total figure? For instance, if I asked right now what is the total assistance, economic, military, and otherwise, is that available?

Secretary LAIRD. We have that available in this backup book, the green book.

Mr. PASSMAN. Would the distinguished Secretary yield to me for about 10 seconds? Would the gentleman yield?

Mr. GALIFIANAKIS. Yes, sir.

Mr. PASSMAN. This is an additional duty as far as I am concerned. I have been dealing with figures all my life. I never had any money but I like to look at figures. It takes weeks and weeks of hard work and digging to put this together. I have a sheet here that shows the amount we have given to every nation on the face of the earth, and I keep it up to date. You could go out to Korea. All you have to do is to look here. We have given Korea $8,104,200,000. Let me give you this sheet now. It is completely up to date. I get them out every year. We only publish them after the agencies have verified them.

GREEK MILITARY PURCHASES FROM FRANCE

Mr. PASSMAN. In an article in the Washington Post last July it was stated that France would be willing to supply Greece with its entire military needs on liberal terms. Do you know if Greece had purchased much military equipment from France before the U.S. embargo was lifted last fall?

Secretary LAIRD. ———.

(Off the record.)

U.S. REMOVAL OF ARMS EMBARGO TO GREECE

Mr. PASSMAN. Many critical articles have appeared in the papers concerning the Greek military dictatorship and the fact that the United States has resumed military assistance to this country before restoration of a democratic form of government. Would you please explain what is presently taking place in Greece and why the United States removed the arms embargo?

Secretary LAIRD. The regime is firmly in control. Any resistance to the regime, in my judgment, is divided and ineffective not only within the country but from abroad as well. There has been some progress toward full representative government. We had hoped that there would have been more. The lifting of the embargo rested entirely on United States and NATO security considerations.

POLITICAL SITUATION IN TURKEY

Mr. PASSMAN. Recently Turkey has experienced an unrest between the military and the regular Turkish Government with the result that Prime Minister Demirel resigned. How does the United States

view this situation with the thought in mind that Turkey is a "forward defense country" and important to the NATO organization?

Secretary LAIRD. It should be noted that the change of government in Turkey is being carried out in accordance with the country's constitutional process. The new government includes members from most of the major political parties, all of which have supported Turkey's membership in NATO in the past. Thus, we do not expect that there will be any significant change in Turkey's relationship with NATO.

EFFECT OF ETHIOPIAN CHANGE OF GOVERNMENT ON U.S. ACCESS TO KAGNEW

Mr. PASSMAN. Mr. Secretary, do you feel if there was a change of government in Ethiopia, the United States would lose the right to continue operation of Kagnew Station, the communications facility?

Secretary LAIRD. Our continued access to Kagnew would, of course, depend upon the attitude of the government that emerged from the change.

On the death of the Emperor, the Crown Prince, according to the constitution, is slated to succeed to the throne. We believe the provisions of the constitution will be respected ———.

MILITARY ASSISTANCE TO ETHIOPIA FOR USE OF KAGNEW

Mr. PASSMAN. Is it not true we have extended large amounts of assistance to Ethiopia to retain this communications station?

Secretary LAIRD. ———. Since 1954 we have given to Ethiopia about ——— in military aid.

TRADE WITH COMMUNIST CHINA

Mr. PASSMAN. An article in the January 24, 1971, Washington Post indicated that our State Department approved the sale of French dump trucks equipped with U.S. engines to Communist China. It stated further that the Defense Department was holding these sales up. Why should we let U.S. automobile components be sold to Communist China? How was this case finally resolved?

Secretary LAIRD. The Department of Defense is always concerned with the export to Communist countries of equipment which can have strategic military uses. However, the Department of Defense does not decide these matters. We simply assess the potential military impact of them and make our recommendation accordingly, meanwhile recognizing that there are nonmilitary factors which also must be weighed. With regard to the case of the French dump trucks, we have made our recommendation but to the best of my knowledge the case has not been resolved yet.

COUNTERINSURGENCY TRAINING TO LATIN AMERICA

Mr. PASSMAN. Another article in the Washington Post indicated that the counterinsurgency training provided certain Latin American countries by the United States may have stimulated some military coups in that area of the world. What is your feeling toward this statement?

Secretary LAIRD. The political attitude of the Latin American military is a product of the environment in which they live. Intervention by the military when it judges that the government has failed has been a widely accepted reaction in Latin America. U.S. programs cannot be expected to negate the political beliefs and attitudes of a lifetime. The Latin American military officer is influenced politically by the training he receives in his own country. Nevertheless, training in the United States does expose him to U.S. concepts of democracy and the proper role of the military in society. No part of the U.S. training given him is in any way related to overthrow of governments but on the contrary is aimed at maintaining internal security and stability in order that economic progress can be achieved.

Mr. PASSMAN. Mr. Shriver.

ZERO DRAFT CALLS AND AN ALL-VOLUNTEER ARMED FORCE

Mr. SHRIVER. Thank you. On page 4 you say your goal is a "zero draft and an all-volunteer active force with increased reliance on National Guard and Reserve forces." Would you explain the President's position on this further and tell us if a timetable for accomplishing this goal has been proposed?

Secretary LAIRD. The President, in his message to the Congress of January 28, 1971, stated that we shall make every endeavor to reduce draft calls to zero by July 1, 1973, replacing the draft with an all-volunteer Armed Force as soon as we can do so without endangering our national security.

The President has requested that we reduce expenditures and extend these economies into future budgets. Within the Department of Defense, these economies will require increased reliance on the combat and combat support units of the Guard and Reserves. I have directed the Secretaries of the Military Departments to provide, in the fiscal year 1972 and future budgets, the necessary resources to permit the appropriate balance in the development of Active, Guard, and Reserve Forces.

Emphasis will be given to concurrent consideration of the total forces, Active and Reserve, to determine the most advantageous mix to support national strategy and meet the threat.

Substantial measures have been taken to improve Guard and Reserve readiness for the all-volunteer force environment. The administration's proposed recommended pay increases will accrue to Guard and Reserve personnel as well as those in the Active Forces. Our proposal of quarters allowance for enlisted personnel in the lower pay grades includes guardsmen and reservists during their initial active duty training. This will correct a long standing inequity. We are considering other measures which can be taken in the Guard and Reserve area to end reliance on the draft through a combat ready Guard and Reserve.

REPORTS TO CONGRESS

Mr. SHRIVER. On page 6 you say a committee reports regularly to Congress on the measure of each country's military expenditures in comparison with the other countries in the region. What reports are you referring to?

(The information follows:)

Sections 620(s) and 120 require the President to report annually to the Speaker of the House of Representatives and the Committee on Foreign Relations of the Senate his actions in carrying out these sections. The President's authority to administer this provision has been delegated through the Secretary of State to the Administrator of the Agency for International Development (AID). The Administrator is assisted in carrying out this responsibility by an interagency committee which annually analyzes the quantity and nature of military expenditures by countries receiving assistance under the Foreign Assistance Act of 1961, as amended (FAA), and the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480).

Sections 620(s) and 120 require the President in furnishing assistance to take into account the percentage of recipients' budgets devoted to military purposes and the degree to which recipients use their foreign exchange reserves to acquire military equipment. Section 620(s) was amended, effective December 30, 1969, to include a third factor which the President must also take into account. This is the amount spent by recipient countries for the purchase of sophisticated weapons systems. This amendment also limited the types of FAA-authorized assistance covered by this provision to development loans, Alliance development loans, and supporting assistance.

In implementing this section during fiscal year 1970 the interagency committee examined each recipient's defense expenditures as a percentage of its gross national product and also examined the national budgets of all countries receiving development loans, Alliance development loans, or supporting assistance under the FAA or Public Law 480 sales. Country data were compared to data for other similarly situated countries. Data on each country's military imports were also compared to those of other countries similarly situated. Only the following countries were found to exceed the comparative norms: Israel, Jordan, Ethiopia, Nigeria, Greece, Iran, Malaysia, Vietnam, Thailand, Turkey, Argentina, Brazil, Dominican Republic, El Salvador, Peru, and Uruguay.

Careful examination of the budgets of each of the above countries revealed that with the exception of Greece, Iran, and Peru, none was diverting resources intended for economic development to military purposes. No transfer of resources under the FAA or Public Law 480 sales were made in fiscal year 1970 for Greece. At present, the chief of the U.S. military mission in Iran is assisting the Chief of Staff to formulate Iran's 5-year military requirements by priority, an exercise which is designed to rationalize procurement and eliminate military expenditures which are unnecessary to Iran's security.

In the case of Peru, no Alliance loan, supporting assistance, or sales under Public Law 480 were made in fiscal year 1970 under the usual assistance programs. A special program has been established to assist Peru in its current emergency caused by an earthquake. FAA section 639 permits such disaster assistance regardless of other FAA provisions.

In all cases in which development loans, Alliance development loans, and supporting assistance were furnished and Public Law 480 sales made in fiscal year 1970, the President, acting through the AID Administrator, took into account the percentage of recipient countries' budgets devoted to military expenditures, the degree to which recipients were using their foreign exchange resources to acquire military equipment, and the amount spent by recipients for sophisticated weapons systems.

The methods used in evaluating country expenditures for military purposes under 620(s) as it existed prior to December 30, 1969, have been found satisfactory in meeting the requirements of that section as it now exists. Where sophisticated weapons have been purchased by recipient countries it has not been with funds intended for economic development, nor have such purchases been found materially to interfere with development.

MILITARY SITUATION IN LAOS

Mr. SHRIVER. I realize the Laos program is not in this request, but would you tell us the current status militarily of the neutral government and its capital city? I have read that it is in danger of being overrun and has appealed to Great Britain and the Soviet Union to stop the North Vietnamese and Pathet Lao troops.

Secretary LAIRD. The Pathet Lao insurgency against the government of Prime Minister Souvanna Phouma continues to be supported from North Vietnam and China.——— The territorial position now is close to the alinement in previous years at this time.———

North Vietnam reacted to the closing of its supply route through Kompong Som with special efforts to expand and protect the routes through southern Laos. Friendly guerrilla forces also increased attacks against the NVA logistic position in southern Laos. The NVA responded with increasingly intense attacks against military targets on the Bolovens Plateau. Additionally, the NVA took two towns previously surrounded but unharmed, Saravane and Attopeu.

U.S. ATTITUDE TOWARD CHILE

Mr. SHRIVER. What are the administration's intentions militarily and diplomatically regarding the Communist government in Chile? What is that Government's relationship with Cuba?

Secretary LAIRD. As outlined by President Nixon in his February 25, 1970, presentation to Congress on U.S. foreign policy for the 1970's, the United States has a strong political interest in maintaining cooperation with our neighbors regardless of their domestic viewpoints. We have a clear preference for free and democratic processes, but we deal with governments as they are. Our relations depend not on their internal structures or social systems, but on actions which affect us and the inter-American system. The new government in Chile is a clear case in point. The 1970 election of a Socialist President may have profound implications not only for its people but for the inter-American system as well. The Government's legitimacy is not in question, but its ideology is likely to influence its actions. Our bilateral policy is to keep open lines of communications. We will not be the ones to upset traditional relations. In short, we are prepared to have the kind of relationship with the Chilean Government that it is prepared to have with us. While we do not seek confrontations with any government, those which display unremitting hostility cannot expect

our assistance. And those which violate the principles of the inter-American system, by intervening in the affairs of their neighbors or by facilitating the intervention by nonhemispheric powers, cannot expect to share the benefits of inter-American cooperation. We will work constructively with other members of the community to reduce the disruptive effect of such actions.

Prior to the Allende government, President Frei in late 1969 entered into a trade agreement with Cuba to sell limited quantities of garlic, beans, and wines. With Allende becoming President in October 1970, his government established diplomatic relations with Cuba on November 12, 1970. Since that date Chile and Cuba have signed various agreements; that is, Central Bank lifted all restrictions on commercial trade between the two countries, November 21, 1970; reciprocal treatment on each others merchant ships, February 2, 1971; and a bilateral agreement on commercial air service, February 26, 1971.

Chile's decision to establish ties with Communist Cuba, contrary to the collective policy of the OAS, was a challenge to the inter-American system. We and our partners in the OAS will therefore observe closely the evolution of Chilean foreign policy. As a rebuttal of this statement, President Allende counters that Chile met a moral and political obligation to redress an injustice in reestablishing relations with Cuba.

WITHDRAWAL OF U.S. TROOPS FROM KOREA

Mr. SHRIVER. Have the 20,000 American troops been withdrawn from South Korea yet as proposed last year? Are further withdrawals proposed this year? Is there a timetable for the complete withdrawal of our men?

Secretary LAIRD. The reduction by 20,000 of the authorized strength of U.S. forces in Korea will be completed by June 30, 1971. No further reductions are proposed for this year. At this time there is no announced timetable for the complete withdrawal of U.S. forces from Korea.

SITUATION IN TURKEY

Mr. SHRIVER. You are requesting $100 million for Turkey, where our presence has caused serious domestic problems, Not too long ago, four of our servicemen were kidnapped, and luckily released unharmed. Are you lowering our profile there yet? We should.

Secretary LAIRD. In 1968 DOD–sponsored personnel in Turkey numbered about 24,500. We now have less than 16,000. In addition we have effected certain consolidations and collocations that have reduced the number of sites at which our personnel are located.

MILITARY SALES TO ECUADOR

Mr. SHRIVER. In January of this year, military sales to Ecuador were halted in accord with the prohibition against such sales to countries which seize American fishing boats. Have these sales been reinstated?

Secretary LAIRD. Military sales to Ecuador, which were suspended in January, remain in suspension.

USE OF AMERICAN-MADE TRUCKS ABROAD

Mr. SHRIVER. On February 4, 1971, the Comptroller General issued a report entitled "Economic Advantages of Using American-Made Trucks Abroad to Transport Military Cargo." This is something I have advocated for years, along with many of my colleagues. Have you taken any actions yet to implement the recommendations in this report?

Secretary LAIRD. The Military Departments have provided for the procurement of American-made trucks when it is advantageous to do so and to allocate them on a priority basis to those foreign bases which offer the greatest economic advantages. They have continued their reviews of equipment utilization and given preference for American-made equipment and to American firms.

GAO REPORT ON PURCHASING PROCEDURES FOR U.S. TROOPS

Mr. SHRIVER. In another GAO report of the same date, recommendations are made concerning "Opportunities to Economize on Purchases of Dairy and Bakery Products for U.S. Forces in Southeast Asia." What actions will be taken in this regard?

Secretary LAIRD. The General Accounting Office (GAO) report recommended that the Department of Defense include a requirement in its contracts for bakery products in Thailand that flour of U.S. origin be used. The mill furnishing flour to the bakery contractors in Thailand has commenced using 100-percent U.S.-origin wheat for milling, and contracts with bakery contractors will be amended accordingly.

The GAO report discussed the efforts made to secure exemption from Thai customs duty on the importation of milk ingredients used by a contractor for the in-country production of dairy products for U.S. military activities. As pointed out in the Department of State's letter of October 21, 1970, to the GAO (printed at app. II of the report), such exemption was granted in 1970 only for 1 year, until March 31, 1971, and further efforts will be required in the future in order to continue this exemption. Although 6 months ago the Embassy requested such customs exemption be continued after March 31, 1971, the request is still under consideration by the agencies of the Royal Thai Government.

Recommendations of the GAO report relating to seeking relief from other Thai taxes and duties on dairy and bakery products purchased for the use of U.S. forces in Thailand, as well as seeking an equitable rebate for taxes and duties levied in the past thereon, were addressed to the Department of State, to which the Department of Defense defers.

CLASSIFICATION OF CERTAIN INFORMATION

Mr. SHRIVER. Why in the justification for military assistance are ——— blacked out. Why do we not disclose what the Soviet Union is doing? Why are these classified?

(The information was submitted to the Committee.)

IMPROVEMENT OF KOREAN FORCES

Mr. PASSMAN. Mrs. Reid.

Mrs. REID. Thank you. What progress has been made in updating the armed forces of the Republic of Korea?

Secretary LAIRD. The U.S. Government has worked out with the Korean Government a 5-year plan for the modernization of Korean Armed Forces. The Congress was requested and did provide in the 1971 supplemental, $150 million as the initial increment of this plan. Our request for fiscal year 1972 carries on with this program. Obviously the continuation of this program is dependent upon the support of the Congress.

OKINAWA

Mrs. REID. Many people both in and out of Congress are under the impression that if Okinawa reverts to Japan we will pull out completely. What are the present plans in regard to maintaining a military establishment there?

Secretary LAIRD. Let me answer your question with the following exerpt from the President's recent foreign policy report.

In recognition of our growing interdependence and Japan's own increased stature, Prime Minister Sato and I agreed in November 1969 to enter into negotiations for the return of Okinawa to Japanese administration by 1972. I can now report that negotiations on this question, including the retention of our Okinawa bases, are progressing steadily. Our aim is to reach the specific agreements this spring, allowing us to obtain the necessary legislative support to proceed with reversion in 1972.

Last December, we and the Japanese agreed to significant realignments in our military bases in Japan, which will result in a reductuon of some 12,000 U.S. military personnel over the next several months without adversely affecting our ability to meet our commitments to Japan or other Asian allies. The Japanese have announced plans for continuing qualitative improvements of their own self-defense capabilities, enabling them to provide for substantially all of our conventional defense requirements.

TRAINING OF U.S. PERSONNEL ASSIGNED TO MILITARY ASSISTANCE ADVISORY GROUPS (MAAGS)

Mrs. REID. In many of the countries in which we have Military Assistance Advisory Group missions, the military play an important political role. What training is given our personnel so they have a good understanding of the political dynamics of these nations, as well as a deep understanding of American foreign policy objectives?

Secretary LAIRD. Military Assistance Advisory Group (MAAG) personnel are considered to be apolitical, and do not play an important political role during assignment in country MAAG. Military personnel being assigned to MAAG's do, however, receive a political background orientation both with regard to U.S. policies and objectives for the country and area of assignment and as regards the political situation in the country of MAAG assignment.

MID-EAST SITUATION

Mrs. REID. Where do you see the situation in the Middle East heading? How are the proposed military sales to Israel coordinated with Secretary Rogers' efforts to obtain a peaceful settlement of that conflict?

Secretary LAIRD. We are, of course, hopeful that it will be possible to achieve a peaceful and lasting settlement of the Arab-Israeli dispute, and we are working toward that end. As Secretary Rogers has repeatedly said, however, this is a most difficult problem, its resolution will not be easy, and in this, of all areas, it would be foolish to make a prediction. We are doing our best, and we are hopeful, but that is all we can say. With regard to military sales to Israel, these are fully coordinated with the State Department, in all particulars.

EFFECTS OF MILITARY ASSISTANCE CUTBACK

Mrs. REID. Would you comment on the actual practical effects of a cutback in our military assistance program—what would be the alternatives?

Secretary LAIRD. There are only two real alternatives to military assistance: (1) allowing the security of our friends and allies to deteriorate to the point that they were forced to make political accommodations with the Communist powers, or (2) greatly increasing U.S. forces to provide for forward security of those countries without reliance on their own manpower and resources. Neither course of action is in the U.S. interest. The Nixon Doctrine, of relying more on our friends and allies to defend themselves, while assisting them in obtaining the means to do so, is preferable to either of these alternatives.

EFFECT OF RED CHINA'S MISSILE PROGRAM ON MAP

Mrs. REID. In your annual report to Congress on the world military situation, you predicted that Red China could develop an initial force of operational intercontinental ballistic missiles between 1973 and 1975? What effect, if any, does this have on planning for the military assistance program?

Secretary LAIRD. The military assistance program is not designed to provide protection against nuclear aggression or threats of nuclear aggression. It is designed to help our friends and allies defend themselves against conventional attacks.

TYPES OF WEAPONS PROVIDED

Mrs. REID. Could you comment on the types of weapons that may be given or sold to our allies to help implement the Nixon doctrine—do we give them regular equipment that has been used by our own forces or are we developing new types of aircraft—such as the "International Fighter" and other types of conventional weapons through research?

Secretary LAIRD. In general, we have provided regular equipment of the type used by our own forces, since procurement and maintenance of this equipment can be coordinated with U.S. force procurement. In the case of aircraft, however, we have a special MAP aircraft, the F–5 Freedom Fighter, which is cheaper and easier to maintain than regular U.S. Air Force operational fighter aircraft, primarily because its operational capability was designed to meet the needs of our allies. We are in the process of developing a follow-on to the F–5, designated as the "International Fighter Aircraft," which we plan to

introduce into the military assistance and sales program in the next few years. Research is also planned in other areas that could result, in some cases, in the development of equipment for our allies that would be more responsive to their needs than would standard U.S. military equipment.

Mr. PASSMAN. Mr. Riegle.

NORTH VIETNAMESE AGGRESSION

Mr. RIEGLE. Thank you, Mr. Chairman. I believe that the war in Southeast Asia has demonstrated the toughness of the North Vietnamese regime, and most experts would now rate them as the most powerful nation in Southeast Asia. If, as it is reported, this country does have an appetite for aggression, don't you think that it is only a matter of time before they take over the non-Vietnamized countries, such as Thailand, Laos, Burma, and Malaysia?

Secretary LAIRD. North Vietnam's capacity and will to take over other countries in Southeast Asia have, of course, been the subject of much discussion. Both the capacity and the will are a function of extremely complex historical, cultural, geographic, economic, political and military factors. Of the countries you name, Laos is certainly in the greatest danger of North Vietnamese domination. Because of its size and cultural homogeneity, Thailand can serve as a counter-balance to North Vietnam if the Thais receive assistance to offset that which the North Vietnamese receive. Burma and Malaysia are sufficiently distant to minimize the threat of North Vietnamese domination if Thailand remains strong.

OBJECTIVE OF SOUTHEAST ASIA PROGRAM

Mr. RIEGLE. On a number of occasions now, the President has pointed out that the purpose of the initiatives he has taken in Southeast Asia is to save American lives. He mentioned this in connection with Vietnamization, incursion into Laos, and the invasion into Cambodia. Would you not concede that the protection of American lives is a distinct change from the previous policy of protecting South Vietnam?

Secretary LAIRD. There is a plan to end U.S. involvement in Southeast Asia and to bring U.S. troops home from that war. That is what the Vietnamization program is all about. That plan has been approved by the President and we are moving in accordance with that plan. That is what we are doing now in reducing U.S. troop strength in Vietnam under the several increments which already have been announced.

Vietnamization has been defined as the process by which the major military, paramilitary, and civil responsibilities that the United States has assumed in South Vietnam are transferred to the South Vietnamese in an orderly manner and within a reasonable time frame. It is aimed at allowing the people of South Vietnam to determine their own future by providing for their own defense, while removing U.S. troops from combat in Southeast Asia. Vietnamization is regarded as the first crucial step in implementing the Nixon Doctrine underscoring our expectation and insistence that defense responsibility be increasingly shouldered by the Asian nations themselves. Vietnamization is both a complement and an alternative to the Paris negotiations by

providing both an additional incentive to Hanoi to negotiate and a means for U.S. troops to be withdrawn in an orderly manner without sacrificing our single objective—the right of self-determination for the people of Vietnam.

General Abrams, Commander of the U.S. Military Advisory Command in Vietnam, is attempting to conduct military operations in Vietnam with a minimum of American casualties. President Nixon on many occasions has expressed his concern for the safety of those Americans remaining in Vietnam as the reduction of U.S. force levels continues, and every effort is being made to ensure that adequate protection is provided for those remaining personnel. Furthermore, it is President Nixon's desire that we bring all U.S. forces home safely from Vietnam as soon as possible, commensurate with our objective to bring a just peace to Vietnam. Our overriding objective is a political solution that reflects the will of the South Vietnamese people and allows them to determine their future without outside interference. So, therefore, I really feel that our objective in South Vietnam has not changed.

U.S. INVOLVEMENT AS OPPOSED TO RUSSIA

Mr. RIEGLE. How is it that our major adversary—Russia—has been able, within the past 10 years, to isolate itself from such extended conflicts such as those that occurred in Korea and Vietnam—while the United States continues to get involved? Is our use of South Vietnamese troops in Laos and Cambodia an attempt to wage war by proxy, as they have been successfully able to do in those two countries?

SECRETARY LAIRD. We believe the record shows major Soviet involvement in conflicts outside Soviet borders, both directly and indirectly. Soviet intervention in Eastern Europe, most recently in the Czechoslovak invasion in 1968, is well known. During the Korean conflict, while the Soviets avoided a direct role, Soviet aid to the North Koreans was crucial. During the war in Vietnam, massive Soviet aid has been crucial to the North Vietnamese war effort.

As for direct Soviet involvement, mention might be made of the Soviet effort to put missiles into Cuba in 1962, and continued Soviet military ties with Cuba. Perhaps the best case of all, however, showing Soviet involvement militarily outside her borders, is the Middle East, where it is estimated that as many as 14,000 Soviet military personnel are currently stationed in the United Arab Republic. Before the ceasefire began in August 1970, Soviet military personnel were manning anti-aircraft defenses and flying air-defense missions over Egyptian territory.

South Vietnamese operations against North Vietnamese forces in Laos and Cambodia do not constitute a war by proxy, by implication in behalf of the United States. The South Vietnamese are fighting in their own self-defense against an enemy which uses the territory of Laos and Cambodia to launch attacks against the territory and people of South Vietnam. These operations by South Vietnamese forces are consistent with our policy of Vietnamization, of turning over to the Vietnamese what has been the U.S. share of the combat burden in a manner which will ensure their ability to defend themselves.

TROOP WITHDRAWALS

Mr. RIEGLE. It appears that neither Vietnamization, nor the Paris peace talks, offer much hope of recovering our prisoners of war. Since the President is committed to a withdrawal of American troops, according to some unpublished timetable, would it not entail little risk to propose a troop withdrawal—prisoner of war swap to North Vietnam.

Secretary LAIRD. I would like to submit that information for the record.

(The information follows:)

President's Five-Point Peace Plan
October 7, 1970

An internationally supervised cease-fire-in-place throughout Indochina, governed by principles which would make it acceptable and credible to both sides. This was designed to stop the fighting at once and hopefully create new conditions and avenues for a negotiated settlement.

An Indochina Peace Conference. This reflected the facts that North Vietnamese forces were in Laos and Cambodia as well as Vietnam and that a stable peace in one required a stable peace in all.

The withdrawal of all American forces from South Vietnam on a timetable to be negotiated as part of an overall settlement. This was to make clear that we were prepared to remove all American troops.

A political settlement in South Vietnam based on the political principles I had stated on April 20. This was to reaffirm to the other side our willingness to search for a political process that would meet their concerns.

The immediate and unconditional release of all prisoners of war, journalists, and other innocent civilian victims held by both sides. This was to underline our view that the prisoner issue was strictly humanitarian and need not await resolution of other problems.

REDUCTION OF ALL FORCES IN SOUTH VIETNAM

Mr. RIEGLE. It is my understanding that the Nixon doctrine "will enable our friends and allies to do more for themselves." In the first test of this doctrine in South Vietnam, we find that Australia, Thailand, and Korea, have all announced plans to withdraw their support when the Americans leave. Under these circumstances, is it realistic to depend on countries such as these, notwithstanding our military assistance, to ease the burden on the United States, or to reduce the risk of conflict in the world?

Secretary LAIRD. Australia, New Zealand, and Thailand have announced plans, in agreement with the Government of Vietnam, progressively to reduce their combat forces in Vietnam. The Government of Korea has said that reductions are under study. Decisions made in this regard by these nations contributing aid to Vietnam result from the greatly improved capacity of the South Vietnamese to see to their own defense, and from the declining enemy capacity. In effect South Vietnam's requirement for combat assistance has diminished so that these other nations, just as in the case of the United States, can reduce their forces. However, in all cases, the plans call for phased reductions, consistent with the assumption of the responsibilities by the South Vietnamese. The countries contributing forces to Vietnam consult with one another and with the Government of Vietnam regarding further withdrawal plans.

U.S. DEFENSE POSTURE

Mr. RIEGLE. It has been reported and discussed in a number of articles that our strategic defense posture vis-a-vis Russia, has deteriorated as a result of our involvement in South Vietnam. Certainly they have closed the gap in and installed ICBM's and SLBM's. It is reputed that while they were making headway in these two areas, our own modernization and development programs have been put on the back burner. Would you comment on the charge that the $100 billion investment in Vietnam has hurt our defense posture, and that we don't have the quantitative or qualitative superiority that we had 10 years ago.

Secretary LAIRD. The change in the relative balance between United States and Soviet strategic postures has resulted both from the diversion of U.S. resources to Vietnam and from the continuous and rapid growth of the Soviet strategic forces. They have continued to deploy ICBM's, and may be initiating a new deployment in that area; they have continued to construct ballistic missile submarines at a high rate, and they have continued to improve and expand their defensive forces.

The United States, on the other hand, has maintained a relatively constant strategic force level during this period.

MID-EAST ARMS RACE

Mr. RIEGLE. Is not our giving ——— in military credit sales to Israel, and at the same time giving ——— to Saudi-Arabia, ——— to Jordan, and ——— in a sense playing both ends-against-the-middle in the Middle East? Doesn't this both ends-against-the-middle policy cause the Israelis to question our goodwill and, to a certain extent, promote the arms race in that part of the world?

Secretary LAIRD. Whenever we supply arms to two neighboring countries, there is, of course, always a chance they will use these arms against each other. There is certainly that chance in the Middle East. We do not see the Middle East in terms of either Israeli or Arab military supremacy, however, and we do not believe our arms program is fueling such a conflict. Indeed, our sales program is a significant factor in preventing such conflicts. The reason is that our programs support moderate, generally pro-western regimes, and this aid serves at least two important functions: first, it provides these governments with a source of military material other than the Soviet Union, thus helping limit the spread of Soviet influence. Polarizing our position in the Middle East, by tying it entirely to Israel, would certainly open new doors for the Soviets and help to radicalize the entire area. A second function served by our military sales to Arab moderates is to help them achieve and maintain internal security. This serves the interests of the entire area, as recent events in Jordan demonstrate. It is in part at least because of U.S.-provided military equipment that the King was able to bring Arab terrorists under control, thus strengthening his moderate regime and also greatly reducing terrorist incidents along the Jordan-Israeli border.

PUBLIC LAW 480 PROGRAM AND EXPORT-IMPORT BANK MILITARY ACTIVITIES

Mr. RIEGLE. I noticed that of the $5.2 billion that is requested for security systems programs, $300 million is taken from Public Law 480

counterpart funds and $300 million is financed by the Export-Import Bank. In order that we not expose the food-for-peace program, or the Bank, to charges of military subversion, would it not seem prudent to transfer these activities to defense, and keep these programs free of the military sales business?

Secretary LAIRD. The Export-Import Bank provides about $300 million per year in direct credits and credit guaranties for defense articles and services. These credits are extended to developed countries only and the Bank's authority for extending credit for military purchases is found in the Export-Import Bank Act of 1945, as amended. Loans made to developed countries are usually made to enable these countries to purchase major end-items primarily from commercial sources. This credit is not considered security assistance as envisioned by past legislation and the new International Security Assistance legislation. Instead such credit assistance is used as an added inducement to developed countries to purchase defense items in the United States.

The legislative basis and administrative responsibility for grants under section 104(c), Public Law 480, have been previously discussed.

CASUALTIES

Mr. RIEGLE. What is the total number of civilian casualties produced during the Cambodian invasion? The Laos invasion?

Secretary LAIRD. We have no record of the civilian war casualties caused as a result of the Cambodian and Laos incursion.

U.S. CASUALTIES IN SOUTH VIETNAM

Mr. RIEGLE. How many Americans have died in Vietnam—combat and noncombat—have died since this administration assumed office. Please enclose any deaths which occurred in Laos or Cambodia.

Secretary LAIRD. The U.S. casualties in South Vietnam during this administration have been drastically reduced in comparison to those losses from 1965–68. I have listed the casuality statistics for the years 1965 to 1971.

Losses	Combat	Noncombat
1965	1,369	359
1966	5,008	1,042
1967	9,378	1,680
1968	14,592	1,919
1969	9,414	2,113
1970	4,221	1,844
1971 (January–March)	539	325

COSTS OF CAMBODIAN AND LAOS INVASIONS

Mr. RIEGLE. What has been the dollar cost to date of the Cambodian invasion? The Laos invasion?

Secretary LAIRD. In accumulating and estimating the cost of the war in Southeast Asia, no attempt is made to estimate the cost of individual encounters, or major military operations against Communist sanctuaries or supply lines outside South Vietnam. The accounting structure of the Department is not designed to generate this type of information. Accordingly, we have not estimated the costs associated with the operations in Cambodia or Laos.

CROSS-BORDER OPERATIONS INTO LAOS

Mr. RIEGLE. Did the United States have veto power over the South Vietnamese incursion into Laos?

Secretary LAIRD. We were in close consultation with the leaders of South Vietnam concerning their cross-border operations into Laos. If we had refused to provide air and logistical support, I am sure this would have reduced the magnitude of the operation.

U.S. BOMBING OF NORTH VIETNAM

Mr. RIEGLE. How far north into North Vietnam did our bombing raids of the last week go? Is it reasonable to relate bombing raids this far north with the rationale of protecting American lives in South Vietnam?

Secretary LAIRD. Our recent bombing strikes in North Vietnam were against three active SAM sites located in the Panhandle area. These sites were located east of Mu Gia Pass, approximately 15 miles east of Mu Gia and about 15 miles north of the DMZ.

These attacks were protective reaction strikes designed to destroy the missle complexes firing at our unarmed reconnaissance aircraft on authorized missions over North Vietnam.

As I have stated before, we will continue to take protective measures as necessary to protect the lives of aircrew members.

FUEL PIPE FROM NORTH VIETNAM

Mr. RIEGLE. Recently a piece of pipe was displayed to the press by Pentagon personnel with the indication that the pipe was captured during the recent Laos invasion. Was this piece of pipe actually taken during the recent Laos incursion and if not, when and where was it captured?

Secretary LAIRD. The piece of pipe which was displayed in a recent Pentagon news conference was used to illustrate the type of fuel pipe that has been installed from North Vietnam through Laos.

During the recent incursion into Laos the South Vietnamese forces, once again, disrupted the fuel pipeline network leading into the Panhandle from North Vietnam.

Mr. PASSMAN. Gentlemen and lady of the committee, if I may make this observation, we have always had a policy of running from 1 to 5 rather than to have two sessions. We put in as many hours, but it gives the members time to do their work in their offices. If that is agreeable with the committee, we shall return tomorrow at 1 o'clock.

General Warren, I guess you will testify then. Thank you, Mr. Secretary and Admiral Moorer. You have been very informative as usual.

THURSDAY, MARCH 25, 1971.

Mr. PASSMAN. The committee will come to order.

We have before the committee this afternoon Lt. Gen. Robert H. Warren, U.S. Air Force, Deputy Assistant Secretary of Defense (International Security Affairs) for Military Assistance and Sales.

General Warren, we are very pleased to have you before the committee.

I would assume that you have a statement which you would like to present to the committee, and then we will be privileged to ask you certain questions about the program.

General WARREN. Yes, sir.

GENERAL STATEMENT OF THE 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 stressed the importance of our Military Assistance Program and Foreign Military Sales to our national and security and foreign policy objectives embodied in the Nixon Doctrine.

My remarks will provide details of the fiscal year 1972 military assistance and sales programs and bring you up to date on changes or events during recent months which have impact on these important programs.

This year we are submitting a new legislative package which combines the new international security assistance program in one bill. This was recommended by the Peterson committee which the President appointed.

Grant military assistance, foreign military sales and supporting economic assistance will be included.

Four congressional presentation documents have been prepared for your use—one on military assistance, one on foreign military sales and one on supporting economic assistance. State or AID officials will justify the latter. The fourth, a summary document, will combine all three programs plus the "Spigot Table" which lists all foreign assistance.

We made a few changes in our congressional presentation documents (CPD) for clarity and brevity.

Excess military items will be shown in terms of "legal value" (one-third of acquisition cost). Section 8c of Public Law 91–672 contains reference to the fact that excess will be costed at one-third of acquisition value. Since this is in the legislation, we refer to it as "legal value" in the CPD.

Cambodia has been added since last year's CPD was presented; materiel for Jordan was added on the fiscal year 1971 supplemental request.

Commercial sales are summarized in the CPD appendix.

Our total grant aid program for fiscal year 1971 is $750 million in new obligational authority. This includes the original fiscal year 1971 program of $350 million, plus the fiscal year 1971 Supplemental of $340 million NOA and $60 million transferred from supporting assistance. In fiscal year 1972 we are requesting $705 million in NOA. Total programs including recoupments and reimbursements were $775 million in fiscal year 1971 and are estimated to be $731.5 in fiscal year 1972.

It is important to note that only 10 country grant aid programs exceed $5 million—these countries account for approximately 95 percent of the total obligational authority we seek. The remaining $40 million is divided among 36 countries—mostly for training—and nonregional expenses.

We hope to apply around $200 million (at legal value) in excess materiel to our grant aid program. In fiscal year 1971 a $100 million ceiling on excess/long supply was imposed by the Congress. It would be most unfortunate if a similar ceiling were established for fiscal year 1972 since we expect the military departments to release large amounts of military hardware as excess which could be used against valid requirements. Budget reductions, troop withdrawals, modernization of of U.S. forces and other factors will generate these excesses. If we cannot apply them against our valid military assistance requirements, this equipment must be sold as scrap—ships and tanks, for example are sold by the pound as scrap metal after they are demilitarized.

Normally we screen these excess stocks against worldwide requirements of U.S. forces and then against the needs of other U.S. Government agencies. Should there be no U.S. requirement, the equipment becomes available for sale to countries authorized to buy U.S. military materiel.

After these screenings are completed, any remaining items become available to our military assistance program. If we can't or don't use them, most are junked since no private company or individual is authorized to purchase lethal end items. Some, however, such as jeeps or trucks can be bought by individuals.

With respect to credit sales, we are asking for $510 million in new obligational authority to carry out a program that, including the face value of guaranteed private credit, we expect to total $582 million. I must emphasize the importance of this request. As foreign economies continue to improve throughout the free world, it is the essential bridge between grant aid and complete self-sufficiency.

As countries begin the transition from grant aid to sales, they usually are unable to make large cash outlays immediately, and usually are unable to obtain reasonable financing from other sources.

Three points should be noted about foreign military credit sales: First, credit funds are disbursed by the Department of Defense to its suppliers for articles delivered and services rendered; they are not transferred to or disbursed by the foreign country. Second, credits are repaid with interest in U.S. dollars by the foreign country. Finally, since the beginning of this program, we have extended or guaranteed credits totaling just under $2 billion.

One must, of course, look at specific country situations to understand our projections of grant aid and foreign military sales levels. But it might be useful to note first the regional characteristics of our grant and sales proposals.

Worldwide we expect a total of about $2.88 billion in military assistance grants and foreign military cash and credit sales during fiscal year 1972. These two programs break down into about 25 percent grant military assistance, 20 percent foreign military credit sales, and 55 percent for cash. Regionally, about 26 percent is expected to go to the East Asia and Pacific area, 31 percent to the Near East and South Asia area, 37 percent to Europe and Canada, 1 percent to Africa, and 5 percent to the American Republics.

The East Asia and Pacific area continues to require substantial U.S. military assistance—almost 70 percent of our worldwide fiscal year 1972 program. Two countries, Korea and Cambodia, dominate the $501 million in military grants required for the area. The area total

of $75 million for military credits is needed for four countries: China, ——— is well along in the transition from grant to sales, and Korea, ——— is making a good start. Malaysia and Singapore are to receive ——— each. Cash sales in the amount of about $170 million are expected for the area ———. In brief, we expect grant and sales to total three-quarters of a billion dollars to the East Asia and Pacific area—approximately 67-percent grant, 10-percent credit sales, and about 23-percent cash.

In Korea, we are implementing the Nixon Doctrine in one important way by reducing our own forces there as we assist the Republic of Korea in building up its own defense capabilities. This will require substantial amounts of grant aid funds, but the overall savings to the U.S. will be great. Meanwhile, Korea is starting to purchase a part of the equipment and supplies it must obtain from the U.S.; it would be unreal, however, to expect this transition from grant aid to sales to proceed at other than a very modest pace if we are to safeguard the U.S. investment already made in Korea's economic growth and defensive posture.

Timely U.S. assistance initiated last year to Cambodia forestalled a quick defeat of Cambodian forces when North Vietnam invaded in force. Through our aid the poorly equipped and inexperienced Cambodian force of over 35,000 increased to almost 200,000 volunteers. They tie down substantial Communist forces that otherwise could be deployed to South Vietnam and, in addition, are curtailing the flow of Communist supplies. Much remains to be done, however, and our proposed fiscal year 1972 program is designed to strengthen further the important contributions Cambodia is making to the achievement of U.S. objectives in Southeast Asia. This program is one of the highlights of the Nixon Doctrine in action since we have provided equipment and they have provided the manpower.

The Republic of China is an excellent example of how military assistance provides the shield behind which economic development can progress—enabling the recipient to assume more and more of the defense burden. A major grant aid recipient only a few years ago, China today purchases out of its own resources over 75 percent of the equipment and supplies it must obtain from the U.S. A large part of its needs are met through local manufacture and rebuild. Our proposed program is essentially credit and excess material, rounded out by a modest grant aid program requiring MAP funds.

The relatively modest program proposed for the Philippines is designed to continue assisting that country in maintaining internal security and stability.

For Indonesia we are proposing an expanded grant aid program for this important country which has demonstrated, since the overthrow of the pro-Cummunist Sukarno regime, a serious intent to put its house in order and embark upon constructive relationships with its neighbors. The economic situation in Indonesia precludes any substantial transition from grant aid to sales at this time.

We expect a total of about $878 million in grants and sales to the Near East and South Asia area during fiscal year 1972. Grant military assistance in a total amount of ——— is required primarily for Turkey, Greece and Jordan. Credit requirements totalling $420 million are foreseen for seven countries in that area ———. We expect to make $291 million in cash sales to eight countries ———.

Turkey's military requirements and poor financial status makes relatively large amounts of grant aid necessary if its armed forces are to maintain a reasonable capability to carry out their NATO mission. The amount requested for fiscal year 1972 is ———.

Jordan continues to face potentially serious challenges from both radical Arab States and from internal Palestinian guerrilla forces. The maintenance of stability there at the present time as we hopefully move into a period of serious Arab/Israeli negotiations, is particularly important. Our military assistance program is intended as evidence both of our political support for King Hussein as well as our belief that a stable Jordan will contribute to the achievement of a long-term settlement in the Middle East. The economic disruption resulting from the fighting last September and the reduction in financial support received from various Arab States means that much of our aid will have to be provided as grant MAP. We believe ——— is required in fiscal year 1972.

Greece is at a crossroads in the transition from grant aid to sales, and the level of their purchases is expected to increase in the next few years. Because of U.S. strategic interests in the southern flank of NATO and the fact that Greece has only just recently reached the stage economically where it can afford to purchase military equipment, Greece will need MAP funds of ——— in fiscal year 1972. Concurrently, potential levels of credit activity of ——— are anticipated for Greece in fiscal year 1971 and fiscal year 1972. These funds will be used to purchase major equipment items for force modernization. As a complement to both the MAP and sales programs, Greece will receive significant amounts of equipment that have become excess to U.S. force mobilization requirements.

A cordial relationship with the United States has been the cornerstone of Saudi foreign policy for over a generation.

American oil companies earn well over half a billion dollars per year from their operations in Saudi Arabia and U.S. forces in Southeast Asia obtain a large percentage of their petroleum requirements from that country and the adjacent Persian Gulf State of Bahrain. In addition, the U.S. enjoys important military overflight privileges and U.S. Navy vessels have access to bunkering facilities.

We consider that our credit and cash sales programs are important elements in maintaining satisfactory political relations with this kingdom. At the same time, they enhance the positive role of the Saudi Arabian government in strengthening overall stability on the Arabian peninsula and in the Persian Gulf area.

The ——— requested for Israel is to ensure that the arms balance in the Middle East is maintained. As a result of the UAR/Soviet violations of the military standstill agreement of August 1970, the President made it very clear that the U.S. intended to ensure that the arms balance in the Middle East did not tip against Israel; and additional aircraft, advanced anti-missile and electronic equipment, and ground force materiel was provided to Israel. Accordingly, $500 million in credit was requested from and approved by the Congress for fiscal year 1971 to help finance Israel's greater arms needs. The ——— in credit assistance being requested for fiscal year 1972 is for the same basic purpose. It will also provide Israel with relief from the extraordinary economic burdens imposed by its defense requirements.

The U.S. military grant assistance program for Iran currently consists of training only. We expect Iran to play a major role in the important Persian Gulf area. It has made impressive economic strides and assigns great importance to the strengthening of its military forces. Credit requirements for the foreign military sales program to Iran are being met by ExIm Bank financing. We expect cash sales, in part financed by ExIm, to total ——— in fiscal year 1972.

The existence of a stable, politically moderate regime in Lebanon is important to our effort to establish a lasting peace in the area. A modest grant training and credit assistance program is required to equip its army and security forces with the means of maintaining internal security and to give evidence of U.S. political support to the government.

Lebanon supports a negotiated solution to the Arab-Israeli conflict and seeks to reduce the disruptive influence of radical elements both from within and without.

Except for Portugal and Spain where the United States has important base rights interests, European countries receive no grant military equipment. All transactions are on a cash sales basis. We expect such cash sales to total more than $1 billion in fiscal year 1972, about one-third of that amount coming from ——— where major procurements are expected.

Military aid to Spain has been an important part of the long series of agreements with that country under which military facilities have been made available to the United States. These facilities remain important to Western defense, and aid will continue to be provided under the agreement of August 6, 1970. The aid will include credits from the Export-Import Bank and limited amounts of grant materiel for the Spanish ground forces. Taken as a whole, the aid will facilitate the modernization of all three Spanish services and should lead to still additional sales in the future.

Grants and sales to Africa are limited in scope—reflecting the U.S. policy of discouraging arms races and the unnecessary diversion of scarce resources away from orderly economic development.

As in previous years, Ethiopia is scheduled to receive the bulk of the grant materiel aid planned for Africa. The assistance is designed to help Ethiopia improve its internal security capability particularly in Eritrea. ——— MAP has also contributed to Ethiopia's capability to participate in collective security actions, as demonstrated in the Congo in 1962 and again in 1967.

International security assistance to Latin American countries is for modest military equipment modernization programs and for internal security. Our grant aid programs are small and for training only in fiscal year 1972.

Foreign military sales and grant assistance, excluding training, have been subject for some time to a $75 million statutory ceiling and numerous other constraints. Other restrictions on sales to Latin America have caused the larger Latin American countries to look elsewhere for their force modernization. Since the beginning of fiscal year 1968, total armament sales by other than U.S. suppliers to Latin America total over $850 million. A major share of these sales, particularly for aircraft, would have accrued to the United States if we had modified our restrictive policies at an earlier date.

In conclusion, I would like to review briefly some of the principal things we have accomplished.

In 1962, 52 countries were receiving materiel as grant aid under this program; in 1970, that number had been reduced to 20 and, for fiscal year 1972, we are proposing only 13.

Of all countries receiving grant aid materiel assistance since the beginning of the program in 1950, 28 are now out of the program and another 33 are receiving only training.

During the period fiscal year 1950–67, nine NATO countries of Western Europe received more than $12.3 billion in grant aid. These countries today are entirely self-sufficient and, since fiscal year 1964, have purchased $5.8 billion in defense articles and services from the United States.

These facts give substance to our accomplishments. But there are no numbers that can measure the extent to which these programs have brought the sense and reality of collective security to the free world and thus to the United States.

Mr. Chairman and members of the committee, that concludes my statement. I am ready for your questions.

Mr. PASSMAN. Thank you very much, General Warren, for your very comprehensive statement.

We will now ask some questions.

COMPARISON OF FISCAL YEAR 1972 MAP TO FISCAL YEAR 1971

General Warren, the fiscal year 1972 estimate for military assistance worldwide is $705 million; is that correct?

General WARREN. That is correct, sir.

Mr. PASSMAN. That is $15 million above the appropriation for fiscal 1971?

General WARREN. Yes, sir.

Mr. PASSMAN. As we would compare this figure against the total provided for fiscal 1971, would it exceed or would it be below?

General WARREN. Sir, our fiscal 1971 program was $690 million of new obligational authority, to which we added $60 million which the State Department provided to the MAP program on the basis it was to be paid back, and was in the supplemental. So, the grand total, including the State Department $60 million, in fiscal 1971 was $750 million.

Mr. PASSMAN. So, in reality, your fiscal 1972 estimate, then, would be $45 million below the 1971 appropriation.

General WARREN. That is correct, sir.

OTHER MILITARY ASSISTANCE FUNDS

Mr. PASSMAN. General Warren, you were present yesterday when the committee discussed with the Secretary of Defense that the $705 million is not the total military picture as requested in the budget submitted in January, because funds for Vietnam, Laos, Thailand, NATO infrastructure, Support of Free World Forces in Vietnam, and International Military Headquarters are included in the regular Defense Department appropriation request, which is no longer carried in this bill. Is that correct?

General WARREN. That is correct; yes, sir.

Mr. PASSMAN. If I recall, when these items were actually carried in this bill, the annual request was in the neighborhood of $2 billion.

General WARREN. That is right.

Mr. PASSMAN. I wish you would insert in the record at this point, the amount in the Defense budget for the countries and the items that we just read into the record, so we may have something to compare the grand total for fiscal 1972 or against the program several years ago.

General WARREN. Yes, sir; I have it here.

(The information follows:)

Military assistance—Defense budget, fiscal year 1972

[In millions of dollars]

Support of other nations	2,230.8
Vietnam	1,783.9
Korea (in Vietnam)	———
Thailand	———
Laos	———
Other programs	92.3
International Military Headquarters	72.3
NATO infrastructure	20.0
Total	2,323.1

INCREASED REQUIREMENTS FOR MAP

Mr. PASSMAN. I believe you indicated you wanted to insert some information in the record to show that the situation is more intense worldwide today than several years ago, and that would justify any increase you may have now over previous years.

General WARREN. That is correct.

There is increasing concern that in the Mediterranean area and also in the Far East war area, we are facing a greater and greater threat than we did a year or two ago. The increased Soviet naval activity in the Mediterranean is somewhat alarming. The Soviet Navy is also operating around Cuba these days.

Of course, in the Far East there is concern over Cambodia and Laos and the massive invasion of Cambodia by North Vietnam. The North Vietnamese troops and Vietcong went from about 35,000—mostly supply handlers and administrative types—to 50,000, an increase of 15,000, many of whom were combat troops.

There are other problems, but those are illustrative, Mr. Chairman.

MILITARY ASSISTANCE IN THE FAR EAST

Mr. PASSMAN. Of course, we have a military assistance program in several of the Far Eastern nations. I guess the two in which we possibly have the biggest investment would be South Korea and the Republic of China.

General WARREN. Sir, the largest ones there ———.

Mr. PASSMAN. To keep the record straight, I believe the Secretary of Defense referred to China as ——— yesterday.

General WARREN. He did, sir. That was a rounded figure.

Mr. PASSMAN. Do we want to stick with the figure that was given yesterday, ———.

General WARREN. Yes, sir; as a rounded figure. The exact figure is ——— as indicated in the CPD.

Mr. PASSMAN. Thank you.

UNDISBURSED FUNDS FOR EAST ASIA-PACIFIC COUNTRIES

General Warren, would you place in the record at this point, if it is not classified, the amount that is in the pipeline for each one of the recipient nations under the military assistance program in the Far East? By that we mean the funds that you had previously obligated but you are waiting for deliveries to be made, the amount of obligated but undisbursed funds. You may furnish that to the committee in the form that you furnished it to the committee at the close of the last fiscal year, or you may wish possibly to give us an estimate as of the close of fiscal 1971, whichever is easier. Let it be as complete as you can make it.

General WARREN. Mr. Chairman, may I submit it as of June 30, 1970, which is the latest that we have.

Mr. PASSMAN. That would be wonderful.

(The information follows:)

Military assistance program

[In thousands of dollars]

Country:	*Available for delivery/ expenditure*[1]
Cambodia	189, 104
China	57, 226
Indonesia	24, 989
Korea	390, 227
Malaysia	224
Philippines	43, 794
Regional costs	148
Total, East Asia	

[1] Includes undelivered balance on June 30, 1970, and the fiscal year 1971 program (including supplemental).

Mr. PASSMAN. What is in the pipeline and undisbursed to Korea?

General WARREN. Approximately $104 million, sir. These are undelivered items that are programed and paid for, including excess items.

Mr. PASSMAN. If I recall correctly, last year the regular appropriation for Korea was approximately $141 million. We gave them in a supplemental of $150 million, bringing the grand total up to about $291 million. You mean the funds have been disbursed that rapidly?

General WARREN. No, sir. This figure includes only those funds that were actually disbursed for specific projects. The supplemental moneys for Korea are not all obligated at this time.

Mr. PASSMAN. I believe I stated it this way: Undisbursed funds to the credit of these nations, because you carry them in a reserve status, and as such this committee recognizes those items as being obligated. Has that not been the policy in the past?

General WARREN. Yes, sir.

Mr. PASSMAN. That is what we want, the undisbursed funds to the credit of these nations, whether it is obligated or unobligated, so we may get the grand total of undisbursed funds in the pipeline. Is it clear now?

General WARREN. Yes, sir; I understand. I do not have the figures here.

Mr. PASSMAN. Put them in the record, if you wish.

I believe the estimate for Korea, for undelivered, would be $268 million.

General WARREN. Sir, if we add the 1971 program as you did—the figures I used were exclusive of that program—if they are added, our grand total, including the 1971 original MAP and the supplemental, is about $390 million available for delivery or on order for Korea.

Mr. PASSMAN. Let us use that figure, if we may.

General WARREN. Yes, sir.

BALANCE AVAILABLE FOR DELIVERY/EXPENDITURE

Mr. PASSMAN. If we get too many figures, it will not be clear. We will use that figure. What we want is the total amount that will be in the pipeline as of June 30, 1971, or December 31, and that will cover Cambodia, China, Indonesia, Korea, and the Philippines. I think if we put the figures carried on page 19, which is confidential, that would be good enough. That which is in the shaded area is classified. You can use the figures in column 3 reading from the left.

General WARREN. Yes, sir.

Mr. PASSMAN. That would be sufficient.

(The information follows:)

MILITARY ASSISTANCE PROGRAM AVAILABLE FOR DELIVERY/EXPENDITURE

[In thousands of dollars]

Country	June 30, 1970, undelivered balance	Fiscal year 1971 program	Total
Cambodia	4,104	185,000	189,104
China	37,209	20,017	57,226
Indonesia	6,993	17,996	24,989
Korea	99,425	290,802	390,227
Philippines	26,798	16,996	43,794

VALUE OF EXCESS EQUIPMENT AVAILABLE

Mr. PASSMAN. Will you give us the same information on excess equipment?

General WARREN. Yes, sir.

Mr. PASSMAN. And the acquisition cost, as well as the legal cost, for each one of those nations.

General WARREN. Yes, sir.

(The information follows:)

MAP—EXCESS DEFENSE ARTICLES

[In thousands]

	Available for delivery/expenditure [1]	
	Acquisition cost	Legal value
Country:		
Cambodia	$18,605	$6,202
China	150,937	50,311
Indonesia	4,039	1,346
Korea	59,920	19,973
Philippines	7,704	2,569
Total	241,205	80,401

[1] Includes undelivered balance on June 30, 1970 and fiscal year 1971 program.

TYPE AND RECIPIENTS OF EXCESS EQUIPMENT

Mr. PASSMAN. It is my understanding that presently you have excess military material in South Vietnam, and that is being transferred out to this list of nations. What kind of equipment is it that is being moved out of South Vietnam now as excess equipment to the United States and being made available to our allies?

General WARREN. Sir, I have some examples here and, if you wish, some handouts.

First, may I clarify the source of these equipments. They are not necessarily from Southeast Asia, sir. A lot of them are from our own U.S. units that are deactivated or withdrawing from Korea, for example.

Mr. PASSMAN. When I used that term, I meant that the equipment is in that area.

All we want to know is the type of equipment that is being moved out. Naturally, most of it would be from our own Defense Department. We want the type of equipment and the nations that you are moving it into.

General WARREN. Very well, sir.

I have a list of sample items that we delivered last year, which include aircraft and 102 tanks. I will put that in the record, sir.

(The information follows:)

EXCESS DEFENSE ARTICLES

[Following are examples of major items allocated during fiscal year 1971; values are acquisition costs]

[Dollars in millions]

Quantity and item	Acquisition cost	Country
1 TF-102A aircraft	$1.5	
2 F-100F aircraft	1.6	
4 TF-102A aircraft	5.9	
2 F-100D aircraft	1.4	
18 C-47 aircraft	1.7	
3 S-2D ASW aircraft	3.2	
102 M-48 tanks	11.2	
326 M-48 tanks	35.1	
70 AA guns, 40mm	3.4	——
3 tugboats	1.3	
68,644 carbines, .30 caliber	5.3	
1,500 Bull Pup missile components	3.1	
7,121 machineguns, .30 caliber	1.8	
22,000 rifles	2.2	
858 trucks and trailers	6.8	
3,258 trucks and trailers	18.2	
2,349 trucks and trailers	16.2	
1,494 trucks and trailers	21.1	

EXCESS AVAILABLE ABOVE LEGISLATIVE CEILING

General WARREN. I also have a list, for the information of the committee, of the type of equipment which has been offered to us for distribution which we cannot distribute right now because of the $100 million legal ceiling on excess in fiscal 1971.

Just to illustrate our problem, this partial list that I prepared for the committee includes, among other things, 699 tanks, 97 supersonic aircraft, 744 light aircraft, 500 trucks. If we did not have the ceiling, we could distribute today an additional $217 million acquisition cost of long supply or excess materiel, and with 3 months to go in this

fiscal year, I would estimate we will pick up another $250 million worth of excess at acquisition cost.

Mr. PASSMAN. Making a grand total of what?

General WARREN. The grand total would be somewhere around $460 million worth of equipments, acquisition cost, that we cannot deliver the rest of this fiscal year because of the ceiling, the $100 million.

We have asked the services to try to hang onto this, but their yards and depots are getting so crowded, if they do not get some relief they will have to junk this stuff.

Mr. PASSMAN. The facts are, this is excess to our needs?

General WARREN. Yes, sir.

Mr. PASSMAN. And it cannot be disposed of in any civilian economy, either in our country or any of the military assistance nations?

General WARREN. It cannot, with the exception of some nonlethal items, like trucks or jeeps. They can be sold to the individual countries.

Mr. PASSMAN. I am talking about military. You are prohibited from selling it to civilians?

General WARREN. That is correct, sir.

Mr. PASSMAN. When it becomes excess, it means just that, that it is excess and it is no longer usable by our own Military Establishment?

General WARREN. Yes, sir; and no longer desired by any agency in the Government, because we screen it worldwide against all Government requirements.

UNDER-UTILIZATION OF EXCESS EQUIPMENT

Mr. PASSMAN. Then unless it is made available to the military assistance nations, it simply means it would have to be junked and you would take whatever salvage value is offered?

General WARREN. That is correct.

Mr. PASSMAN. In many instances, inasmuch as you have a military assistance program approved for these countries and if we make the appropriation, you would have to provide new military hardware in place of the excess? Is that a statement of fact?

General WARREN. That is correct, sir.

May I add one point that came up yesterday briefly?

Mr. PASSMAN. Yes.

General WARREN. In Battle Creek, Mich., the Defense Supply Agency keeps its computer where they record all of the surplus equipment all over the world. The equipment is not solely military. We screened our requirements against their computer last year and took out everything we could use. About 95 percent of that excess material which you may have read about in the paper—around $16 billion worth at acquisition cost—we do not want and will not use, because we will never use any item of excess unless it fits into our actual requirements for a specific country.

Mr. PASSMAN. This causes me great concern, because I recognize in many instances, under this limitation, you will be buying new equipment to deliver to the military assistance countries, whereas you have excess equipment that you will have to junk because of the limitation placed upon you by the Congress.

General WARREN. That is correct, sir.

Mr. PASSMAN. It would, of course, mean that in all probability, unless this limitation is raised, you will have to have a supplemental.

General WARREN. Sir, we need legislation in 1972, which is now drafted for submission, to lift those restrictions.

Mr. PASSMAN. I know that. I want the record to be absolutely accurate. I do not want it any other way. I do not want it exaggerated against you or in favor of the military.

I think I understand the situation quite well, and it causes me a lot of concern when I realize that if we do not permit you to utilize this excess equipment, then you will have to junk it and you will go out and procure new equipment for these nations, when the excess equipment would have served the same purpose. Is that correct?

General WARREN. That is basically correct, sir.

VALUATION OF EXCESS EQUIPMENT

Mr. HATHAWAY. I did not get the answer as to what the valuation is and how you determine the valuation.

General WARREN. The law specified this past year that the value would be computed at one-third of the acquisition cost.

Mr. HATHAWAY. Regardless of how old it is?

General WARREN. That is right. That is a pretty accurate average of the value because we ran some surveys in several areas on selected items, and it came out that about one-third is a reasonable guess as to its market value. We call it legal value, since it is now in the law.

EFFECTS OF LEGISLATIVE CEILING ON EXCESS EQUIPMENT

Mr. HATHAWAY. What is the reason for the $100 million ceiling?

General WARREN. I do not know a sound reason for it. It is a very damaging ceiling. One reason is probably because there is a lot of misunderstanding in the Congress regarding the excess program. Over 2 years ago when our grant aid funds were cut down, we started an all-out drive to use every bit of excess materiel we could find that met validated requirements. As a result of that effort it took us a year to get our requirements on computers so we could compare our requirements with the computer record of the available stock.

Our program, when we got it going, was extremely effective, which resulted in deliveries of over $425 million, acquisition value, of equipment in fiscal year 1970.

Many Members of the Congress were very concerned that we were doing something improper. This was not the case. We finally had gotten our program going. And, as a result of that, and not understanding it, possibly, the $100 million ceiling was put on for this fiscal year.

I do not know if you were here, sir, when I mentioned to the chairman that I have some samples of things that are available that we cannot deliver because of the ceiling. These items total $217 million in acquisition value, including 699 tanks, 97 supersonic aircraft, 30 105-millimeter howitzers, 589 trucks, and so on. They are just sitting in the disposal yards.

If we cannot move them, they are going to junk them.

Mr. PASSMAN. Which would bring about 1 percent, I believe it was testified to, of its acquisition value.

General WARREN. Something like 6 cents per pound on a ship hull or a cut-in-half tank, or something like that.

Mr. HATHAWAY. Have we any control over the excess? If we took the ceiling off, could you send the whole $400 million worth to China for example?

Mr. PASSMAN. I feel that I should interject, because I think I understand the question. The Defense Department have always indicated in advance just how much excess each nation can get. They come to all the committees and they tell the committee, "Here is what we propose to transfer to China and Korea." We always know in advance the amount of equipment to be programed for each country.

I think this year it is ——— to China. They do not have an across-the-board right. This committee and all other committees would cut you apart.

Mr. HATHAWAY. It is in the appropriation bill itself?

Mr. PASSMAN. The amounts are contained in the justifications which are reviewed by this committee.

Mr. ROYBAL. What happens in the event this equipment becomes junk? Does anyone have any control as to where it will eventually end up?

General WARREN. If it is junked, sir, it goes into recognized disposal yards all over the world. There are about 50 or 60 of them. Anybody can buy it. In some cases they will have bids, in other cases there it is, if you want to buy it.

Mr. PASSMAN. After it is junked, it cannot be used as military equipment. It is really junk as such.

General WARREN. Yes, sir.

May I comment on the point of control, because I think this is important.

CONTROLS ON USE OF EXCESS EQUIPMENT

As a result of the last year's rather successful program which have have already mentioned—where we delivered more than $425 million when we thought at best we could achieve no more than $200 million acquisition value—we established a plan this year and are asking the Congress to approve a reasonable ceiling. We have provided our estimates of country ceilings that we would try to abide by through the year on the deliveries of excess.

We feel there should be some flexibility with the ceilings, that they should not be firm or set in law, because we do not know what we are going to get and each country is different.

First, we were going to establish a worldwide ceiling of $200 million legal value; secondly, country target ceilings that we hope we could have flexibility with; and, thirdly, report to Congress four times each year on all the details of our long supply and excess program as it proceeds, or report immediately if we have major excess deliveries that differ from that previously reported so the Congress is fully informed.

I think this would solve some of the concern that the program is out of hand, because it is not.

One other point. We have a Defense Control Group now that we did not have 2 years ago. It is managed and chaired by my office

with membership participation by State, Joint Chiefs of Staff, and several other offices within Defense. They are the ones that allocate these excess major items. So, it is not haphazard. It is carefully controlled and each allocation must be approved within the Office of the Secretary of Defense.

Mr. PASSMAN. Is it true, General Warren, that unless this situation is corrected, it is a long step toward destroying the military assistance program to our Allies?

General WARREN. This is correct.

AVAILABILITY OF ADDITIONAL EXCESS EQUIPMENT

One other thing. This next year, Mr. Chairman, as you know, as we withdraw more and more troops from South Vietnam we are going to have more excess equipments that are in good shape becoming available than we ever had before. If we cannot use this equipment, we will lose hundreds of millions of dollars of value because of this.

NEED FOR ADDITIONAL EQUIPMENT

Mr. PASSMAN. Are we not committed under the Nixon doctrine to modernize the military forces of these nations so as to bring our men home? Last year you had a regular appropriation for Korea of approximately $141 million, plus a supplemental of $150 million, which totals about $291 million for Korea. The supplemental was based on the fact that we were going to bring out 20,000 troops, and we felt we should start modernizing the forces to protect our large investment we have in that country.

Under the present legislation, when you put all the pieces together, it simply means if you have an urgent need for military hardware or equipment, we will say, for country B, you may have in that country excess equipment that would meet that need, but if you cannot utilize this excess equipment on account of the limitation, then you have to take it out of your regular appropriation.

If that was inadequate, I believe you could use section 506 to borrow up to $300 million from the Defense Department, is that correct?

General WARREN. Yes, sir. The latter you mentioned is the President's drawdown authority from Defense stocks, yes, sir.

(Off the record.)

SUPERSONIC AIRCRAFT PROVIDED TO OTHER COUNTRIES

Mr. SHRIVER. This noon, before I came into the committee room, I was talking to a member of the Appropriations Committee who was interested in finding out from the Pentagon last week, prior to the discussion on the floor of the supersonic transport, how many supersonic planes have been sold to other countries.

General WARREN. War planes, sir?

Mr. SHRIVER. Yes.

General WARREN. I cannot give an accurate figure. I will put it in the record. In the last, let us say, 5 years, I would guess around 700 to 900 jet fighter-type aircraft. This is a guess, if I may correct that.

(The information follows:)

SALES OF SUPERSONIC AIRCRAFT

Since the early 1960's the U.S. Government has sold approximately 1,100 supersonic tactical aircraft.

Mr. SHRIVER. How many have we given or sold to Taiwan?

General WARREN. In the case of Taiwan, I have their exact inventory here.

Mr. SHRIVER. I want to report to this member of the committee. He is entitled to know. I do not know why he could not get the information when he wanted it. He needed it in connection with the debate. You would think this was something new.

General WARREN. In the case of Taiwan, I have it here roughly. There are approximately ——— F–104s, which is a Mach 2, twice the speed of sound, aircraft.

There are ——— RF–101 and about ——— F–100. All of them are supersonic, although the last one is pretty old.

So, Taiwan has, I guess, a total of more than ——— aircraft in her inventory.

Mr. SHRIVER. How about Korea?

General WARREN. Korea has approximately ——— total aircraft, of which roughly ——— are F–86 types of Korean war vintage which are growing obsolete. The more modern aircraft that Korea has are ——— F–4 Phantoms and ——— F–5s, the latter being the lightweight, short-legged Northrop fighter. It is a good airplane.

Mr. SHRIVER. How about Turkey?

General WARREN. Turkey has a rather large air force. Turkey has ——— F–104s, the Mach 2 aircraft I mentioned. She has ——— F–102s, which is an all-weather interceptor. She has ——— squadrons of F–100s. She has ——.

Mr. SHRIVER. What is a squadron?

General WARREN. It is usually 18, sir. I have it accurately here.

Turkey has approximately ——— aircraft of the fighter-bomber types or interceptors, sir.

Mr. SHRIVER. How many of those would be supersonic?

General WARREN. All of that group except ——— F–84s are supersonic.

Supersonic really does not mean an awful lot, Mr. Shriver. The F–100 will go supersonic only at certain altitudes. It is an old airplane. It is a good airplane.

Mr. PASSMAN. Does it still fall into the supersonic category?

General WARREN. Yes, sir. It will do about mach 1.23, at altitude. It is a good fighter-bomber.

Mr. SHRIVER. I wonder why they would not release that information.

General WARREN. Sir, who was asking for the information?

Mr. SHRIVER. A member of the Appropriations Committee.

Mr. KNAUR. Whom did he ask?

General WARREN. There is no problem. It is classified because it gives their order of battle, but it is certainly available to anybody here who would like to have it, in detail. I have the inventories of most of the MAP countries.

Mr. SHRIVER. It was to be used just roughly, as a figure, in debate.

Mr. PASSMAN. If it is classified by nation, would you mind giving us the total number of planes in these nations that would be con-

sidered supersonic? Let us get the grand total. I think that would have served his purpose, would it not?

Mr. SHRIVER. I am not particularly interested in this if it is calssified, if we cannot show it in the record.

General WARREN. Sir, I can give you figures which are approximate or I think are worded so that, if we do not break it down by exact type, you could use in an unclassified way.

What I have here is strictly from the intelligence sources. It is the latest, and it is classified.

Mr. SHRIVER. One rather interesting comment that was made to him was, "I can't tell you, but you can look in a certain issue of Aviation Week and get that informtion."

General WARREN. Sir, I cannot vouch for the accuracy of material printed in magazines. Many of the articles iu aviation journals are very good.

Mr. SHRIVER. Thank you, General.

Mr. PASSMAN. I do not know if the gentleman requested this or not. Would you place in the record the total number of aircraft that we made available to all military assistance nations that could be classed supersonic.

(The information follows:)

SUPERSONIC AIRCRAFT FURNISHED UNDER MILITARY ASSISTANCE

The following table lists the number of supersonic aircraft furnished to foreign countries as Grant Aid under the military assistance program from incepition (fiscal year 1950) through September 30, 1970:

Country:	No. of Aircraft	Country:	No. of Aircraft
Belgium	25	Turkey	300
Denmark	87	Ethiopa	12
France	80	Morocco	9
Italy	50	China	332
Netherlands	25	Korea	102
Norway	82	Philippines	22
Spain	20	Thailand	15
Greece	130	Vietnam	37
Iran	92		
Pakistan	13	Total	1,433

TRANSFER OF EXCESS F–104 AIRCRAFT

Mr. PASSMAN. Incidentally, those F–104s that you mentioned were in the excess stock, were they not?

General WARREN. Yes, sir. Those that the Air Force released from its last squadron last year.

Mr. PASSMAN. They were excess. They either allocated them to nations that could use them or else they would be junked. Is that correct?

General WARREN. In the case of the F–104 squadron last year, it is not quite correct, because if we had not been giving China ——

Mr. PASSMAN. I am not talking about China. I am talking about any nation you transferred F–104s to, you did so only after they became excess to our military use.

General WARREN. This is true, except in this case the F–104 squadron would have gone into the Air National Guard. This is a decision made by the Pentagon.

Mr. PASSMAN. How many would that have been?

General WARREN. I think there were ——— aircraft.

Mr. PASSMAN. Out of how many in grand total excess?

General WARREN. Sir, we did not have any others. Those are the only F–104s that became excess last year. It cleaned out the Air Force inventory of that plane.

Mr. PASSMAN. Those you transferred to the Republic of China were what kind?

General WARREN. These were the F–104, sir. The squadron for China you speak of replaced the last F–86 tactical fighter squadron in the Republic of China. We wanted to replace the F–86s because, as I indicated, they are becoming obsolete and hard to support. That squadron will help us complete our program for getting rid of the F–86s.

Mr. PASSMAN. But they were excess?

General WARREN. Yes, sir.

Mr. PASSMAN. In this one instance, you would either transfer them to one of our allies, military assistance nations, or eventually they would have had to be junked?

General WARREN. Yes, sir, although there is one exception.

Mr. PASSMAN. I am talking about the F–86, not the F–104s.

General WARREN. That is correct.

(Off the record.)

REAPPROPRIATIONS, RECOUPMENTS, AND REIMBURSEMENTS

Mr. PASSMAN. I shall move with a little speed. We disposed of the 5-minute rule on the military assistance program yesterday with the understanding that each member would consume all the time needed for his questions, and then go around the table. Whether we are here 2 weeks or 3 weeks, we will operate on that basis. I will ask some very brief questions.

General Warren, as I read the record, you have $4 million in the request for reappropriation for fiscal 1972.

General WARREN. Yes, sir.

Mr. PASSMAN. How does that compare to the previous 3 years?

General WARREN. Sir, it was $3.7 million last year, and $5 million the year before.

Mr. PASSMAN. So far as the recoupments are concerned, in fiscal 1972 you will have available $18,500,000?

General WARREN. We hope so. That is an estimate.

Mr. PASSMAN. How does that compare with last year?

General WARREN. Last year we estimated the fiscal year 1971 recoupments would be $31 million; however, when it became evident that we could not meet that estimate, the level was revised downward to $17.3 million, and in 1970 they were $31.4 million. Our recoupments dropped off, not only because we have expedited deliveries, but because programs for the past 3 years have been much smaller.

Mr. PASSMAN. In other words, it has been cut down very substantially and is holding about level for the past 3 years.

General WARREN. Yes, sir.

Mr. PASSMAN. You get down to a question of $4 million reappropriated funds, that is about as low as you can get it.

General WARREN. Yes, sir. We count on the $4 million being reappropriated in our program which we have presented to you.

Mr. PASSMAN. I understand that perfectly. If you had a place to obligate it, why didn't you obligate it?

General WARREN. We have no assurance that it is $4 million. It is our estimate based on the previous year's activities. Because of the paperwork on all of these projects, it takes several weeks after the end of the fiscal year before we know what we actually still have left.

Mr. PASSMAN. But you could have obligated the $4 million had you had a need for it?

General WARREN. Yes, sir. We would be risking going over, of course.

Mr. PASSMAN. You mean you have to play for some margin there, for fear of going over?

General WARREN. This is partially true. At the end of each fiscal year we have all of the available funds obligated. It is not until after the fiscal year closes that some funds are deobligated.

Mr. PASSMAN. Would you update the table which appears on page 404 of last year's hearings which related to the budget estimates, appropriations, and unobligated balances?

(The table follows:)

BUDGET ESTIMATES, APPROPRIATIONS, AND UNOBLIGATED BALANCES

[In millions]

	Budget estimate	Appropriation	Unobligated balances continued available in subsequent years
Fiscal year:			
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	375.0	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	350.3	3.7
1971	350.0	350.0	4.0
1971 supplemental	----	340.0	----
1971 transfer	----	60.0	----

[1] To liquidate sec. 510 authority utilized in fiscal year 1965 ($75,000,000) and fiscal year 1966 ($300,000,000).

ESTIMATED VERSUS ACTUAL DEOBLIGATIONS

Mr. PASSMAN. Also update the table which appeared on page 405 of last year's hearings concerning the original estimate of deobligations and the actual, by year.

General WARREN. Yes, sir.
(The table follows:)

RECOUPMENTS, ORIGINAL ESTIMATE VERSUS ACTUAL, FISCAL YEARS 1961–70

[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
1970	47.9	31.4
Total	1,291.0	1,350.9
1971	31.0	[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 communcation equipment intially 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 mianly 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.

AMOUNT OF NOA TO BE SPENT IN FISCAL YEAR 1972 AND FUTURE

Mr. PASSMAN. Would you please estimate how much of your request for NOA for fiscal 1972 will actually be disbursed in fiscal 1972, and how much will be spent in future years, if the Congress should approve your request?

General WARREN. Yes, sir.

Mr. PASSMAN. In other words, in simple terms, what we are asking for is a leadtime estimate.

General WARREN. We estimate we will spend $345 million in fiscal 1972, and——

Mr. PASSMAN. You may put that in the record, because we have to move along. We have many fine Members to ask questions.

(The information follows:)

FISCAL YEAR 1972 NOA SPENT IN FISCAL YEAR 1972

(In millions)

Fiscal year 1972 NOA spent in fiscal year 1972	$345.6
Fiscal year 1972 NOA spent in subsequent years	359.4
NOA	705.0

Mr. PASSMAN. We earlier requested that you place in the record a table showing the undisbursed funds. We will use the terminology requested earlier, because you have a stopping place in that table because the figures in the shaded areas cannot be included, is that correct?

General WARREN. Yes, sir; they are classified.

PROCUREMENT LEADTIMES

Mr. PASSMAN. Would you place in the record a list showing the average leadtime needed to procure various items of military equipment, especially tanks and aircraft?

General WARREN. Yes, sir.

(The information follows:)

There is an average leadtime of 24 months in providing major items of equipment such as aircraft, helicopters, ships, combat, and general purpose vehicles, construction equipment, and communications equipment.

MILITARY ASSISTANCE TRAINING

Mr. PASSMAN. It is my understanding that in fiscal 1972 there will be 46 countries which will be receiving some type of military assistance, either military equipment or training.

General WARREN. Forty-six is correct. Only 13 will receive equipment.

Mr. PASSMAN. The others will be military training?

General WARREN. Yes, sir.

Mr. PASSMAN. But it takes some type of equipment to train people, does it not, small arms or something?

General WARREN. We have no hardware programs for any countries in 1972 at this time, sir, except the 13 that I mentioned.

Mr. PASSMAN. What are they trained with? You have them out here training to use sidearms or a rifle. What do you use to train them with, if you do not have any equipment? I do not want to be too exacting, but I think we should know. You do not have them there with wooden guns, do you?

General WARREN. First of all, in the 13 countries, 10 of the countries are the only ones that have programs of over $5 million. They use approximately 95 percent of the new authority we are speaking of.

Most of the training will go to those large countries. Their people will be brought here, or to our schools overseas and trained on U.S. equipment so they become qualified to use the equipments that we have either sold or given them.

Mr. PASSMAN. If you bring these military people to this country, school them and train them and they become military-minded and return to their respective countries, does that not lead to requests for military equipment at some subsequent date?

General WARREN. It could, sir. Most of them, however, go back to operate U.S. equipments that are already in-country.

Mr. PASSMAN. So, really either they have equipment they can operate in the country, or else there would be a request for it. Does that make sense?

General WARREN. Yes, sir. There are some courses that do not relate to equipment, like our professional schools such as the Air War College and the Navy War College.

Mr. PASSMAN. But the whole thing is built around military equipment.

General WARREN. That is correct, yes, sir.

Mr. PASSMAN. You would not train a doctor and let him get his diploma to specialize in surgery and set up an office and say all this is just for fun and you are not going to be permitted to practice. I think we might as well be realistic about this thing. If you train them

in military procedures, they are not going to go home and play with sticks.

I think the record is abundantly clear, if we had time to run it down from the beginning up to now, that a lot of the nations that used to receive military training, at a subsequent date got military equipment from this country or some other country.

To what extent, we do not know.

I do not think we ought to have our constituents or the Members of Congress on other committees believe we train them and make them proficient in the use of arms and equipment, and then send them back to plant flower gardens. It just doesn't work that way.

I think you have made the record very clear that they go back and use the equipment they already have.

General WARREN. Yes, sir.

(List of training grant aid countries follows:)

COUNTRIES TO RECEIVE FISCAL YEAR 1972 GRANT AID (INCLUDING U.S. TRAINING ONLY)

Number of countries to receive fiscal year 1972 grant aid are as follows:

13 COUNTRIES TO RECEIVE MATERIEL AND TRAINING

Cambodia	Liberia
China	Philippines
Ethiopia	Portugal
Greece	Spain
Indonesia	Tunisia
Jordan	Turkey
Korea	

33 COUNTRIES TO RECEIVE TRAINING ONLY [1]

Afghanistan [2]	Lebanon [2]
Argentina	Malaysia
Austria [2]	Mali [2]
Boliva	Mexico
Brazil	Morocco
Chile	Nepal [2]
Colombia	Nicaragua
Congo	Nigeria [2]
Dominican Republic	Pakistan [2]
Ecuador [3]	Panama
El Salvador	Paraguay
Ghana	Peru
Guatemala	Saudi Arabia
Honduras	Senegal [2]
India [2]	Uruguay
Iran	Venezuela

[1] The identity of one "U.S. training only" country is classified.
[2] U.S. training only (11 countries).
[3] Presently suspended; may be resumed.

COUNTRIES ADDED OR DELETED

Mr. PASSMAN. Are you adding any new nations to the military assistance program in fiscal 1972?

General WARREN. Yes, sir.

Mr. PASSMAN. What nations are they?

General WARREN. The only addition was materiel for Jordan.

Mr. PASSMAN. Have you deleted completely any nations in fiscal year 1972, that had either training or hardware in 1971?

General WARREN. We deleted ——— sir.

MAP COUNTRIES UNDERGOING COUPS

Mr. PASSMAN. How many countries to which we supplied military assistance in fiscal 1971 or prior years had coups last year and this year?

General WARREN. Could I put that in the record, sir? I think six. May I refine that?

Mr. PASSMAN. Yes; if you would, and put it in the record.

Mr. LONG. I did not hear that question.

Mr. PASSMAN. How many nations where we have previously had military programs, had a military coup in 1971. He said six. There has been one recently.

Mr. LONG. Out of how many?

Mr. PASSMAN. Out of the 46.

Mr. LONG. Out of 46. That is a pretty good percentage for 1 year.

Mr. PASSMAN. How many of those had more than one coup in fiscal 1971?

General WARREN. I do not have the 1971 figure, sir. I will put it in the record.

Mr. LONG. In about 10 years, wouldn't you get around to everybody?

General WARREN. In the last 20 years, since MAP started, there have been fewer coups than there were in the 20 previous years, but that really does not prove anything.

Mr. PASSMAN. They are going to keep on changing governments.

Mr. LONG. Isn't it hard to have more than one coup a year per country?

General WARREN. Yes.

Mr. PASSMAN. You have had as many as three in 1 year in one country in the past.

Mr. LONG. It is a strain, you know.

Mr. PASSMAN. That is a way of life. Much as we desire to change it, I do not know whether we can do too much about it.

(The information follows:)

In 1970, there were coups in three countries where we had, or previously had, military assistance programs.

In 1971, there have been no coups in any countries in which we have, or have had, a military assistance program.

SUSPENSION OF MAP

Mr. PASSMAN. In how many nations that were recipients of the military assistance program in fiscal 1971 did you suspend such assistance?

General WARREN. In fiscal 1971, FMS sales and grant materiel deliveries were suspended for Ecuador, sir. I do not believe there are any others. May I ask Mr. Chapman, of State?

Mr. CHAPMAN. That is all.

Mr. PASSMAN. How about Chile?

General WARREN. To my knowledge, Chile has not been cut off. May I refer to State, sir, because that decision is the responsibility of the Secretary of State.

Mr. CHAPMAN. The grant materiel program for Chile ended in fiscal year 1968. We are currently providing only grant training.

MAP FUNDS FOR CIVIC ACTION

Mr. PASSMAN. Would you please update the table which appeared on page 420 of last year's hearings concerning the civic action programs?

General WARREN. Yes, sir.

(The table follows:)

U.S. MILITARY ASSISTANCE FUNDS FOR CIVIC ACTION PROGRAMS—FISCAL YEAR 1962 THROUGH FISCAL YEAR 1971 [1]

[In thousands of dollars]

Area/country	Fiscal year— 1962–67	1968	1969	1970	1971
Latin America:					
Argentina	2,100	17	17	12	3
Bolivia	1,896	75	29	26	3
Brazil	9,254		53	7	2
Chile	4,124	91	29	11	18
Colombia	4,481	354	49	104	73
Costa Rica	27				
Dominican Republic	642	107	38	17	25
Ecuador	1,287	21	93	66	17
El Salvador	583	13	2		
Guatemala	1,426	226	324	75	16
Honduras	337	176	176	12	14
Mexico	22		1	2	2
Nicaragua	1	7			
Panama	94	3	2	568	1
Paraguay	3,545	257	159	109	38
Peru	8,395	26		2	1
Uruguay	1,061	37	4	23	2
Venezuela	103	8	5	13	3
Region	2			9	
Area total	39,380	1,418	981	1,056	218
East Asia:					
Cambodia	35				
Indonesia	5,395	4,124	4,900	5,708	14,488
Korea	1,434	341			
Laos	61				
Philippines	8,518	4,730	8	17	180
Thailand	2,313				
Vietnam	1,068				
Area total	18,824	9,195	4,908	5,725	14,668
Near East, South Asia, and Africa:					
Ethiopia	167	21	1		2
Greece	16				
Guinea	775				
Iran	115				
Jordan	213				
Liberia	152	9	2	1	
Libya	19				
Mali	334				
Morocco	117				
Nigeria					200
Senegal	913		4	4	1
Tunisia	2		1		
Upper Volta	15				
Area total	2,838	30	8	5	203
Worldwide total	61,042	10,643	5,897	6,786	15,089

[1] Fiscal year 1962 was the 1st year that civic action assistance was so identified in MAP. Fiscal year 1972 worldwide total is estimated at $23,400,000. MAP civic action assistance to Vietnam was terminated beginning in fiscal year 1966, to Laos and Thailand beginning in fiscal year 1968; such assistance is now wholly service funded.

MAP EQUIPMENT IN RECIPIENT COUNTRIES

Mr. PASSMAN. As I recall, each year we like to discuss the problem concerning the type of equipment located in the countries the United States relies on to be the first line of defense in case of war. If you could put something in the record on that, we would be grateful.

General WARREN. Yes, sir.

Mr. PASSMAN. I refer to Turkey, Greece, and the other forward defense countries.

(Note: Information was supplied to the committee.)

STORAGE COSTS FOR EXCESS EQUIPMENT

Mr. PASSMAN. Just one other question about excess military equipment.

If it is excess and you cannot utilize it, then you have to pay storage until it is finally junked?

General WARREN. It costs money to store and handle, yes, sir.

Mr. PASSMAN. Do you have any period of time in which you move from excess to the junkyard?

General WARREN. No, sir; there is no schedule. As a matter of fact, in view of this ceiling, we have asked the services to hold up on volunteering excesses as much as possible the rest of the year, because we are already at the ceiling, and we have $250 million worth of excess that we cannot deliver.

PERCENT OF MAP EQUIPMENT OPERATIONAL

Mr. PASSMAN. If you would, General Warren, place something in the record as to what percent of the total grant equipment provided by the military assistance program to the foreign countries now on hand is considered to be operational.

General WARREN. Yes, sir.

(The information follows:)

[Dollars in thousands]

Country	Total delivered	Percent still in country	Percent operational
East Asia:			
Cambodia	$6,928		
China, Republic of	2,352,576		
Indonesia	52,473		
Japan	1,238,853		
Korea	2,564,344		
Philippines	332,900		
Thailand	455,700		
Near East and South Asia:			
Greece	1,226,537		
India			
Iran	574,903		
Jordan	7,591		
Lebanon	7,659		
Pakistan		——	——
Saudi Arabia	12,871		
Turkey	2,175,727		
Latin America:			
Argentina	29,753		
Bolivia	11,944		
Brazil	206,842		
Chile	66,271		
Colombia	72,832		
Costa Rica	811		
Dominican Republic	15,506		
Ecuador	28,446		
El Salvador	2,962		
Guatemala	10,627		

[Dollars in thousands]

Country	Total delivered	Percent still in country	Percent operational
Latin America—Continued			
Honduras	3,602		
Nicaragua	3,823		
Panama	1,730		
Paraguay	4,350		
Peru	68,981		
Uruguay	29,171		
Europe:			
Austria	82,997		
Belgium	1,143,581		
Denmark	551,557		
France	3,728,701		
Italy	2,146,376		
Luxembourg	8,296		
Netherlands	1,093,347		
Norway	744,527		
Portugal	291,735		
Spain	459,948		
United Kingdom	983,237		
Africa:			
Congo	21,601		
Ethiopia	113,742		
Libya	10,041		
Morocco	27,196		
Tunisia	23,174		

VALUE AND DISTRIBUTION OF MAP EXCESS

Mr. PASSMAN. If you would place in the record, General Warren, an estimate of the total acquisition value of excess equipment, the legal value, the location of this equipment, and the percentage that is in the United States and other nations of the world, I think that would help us greatly.

General WARREN. Very well, sir.

Mr. PASSMAN. Much of the excess equipment is in other countries, and you transfer out of one country where it cannot be utilized to other countries, is that correct?

General WARREN. Yes, sir.

(The information follows:)

ESTIMATE EXCESS BY AREA

[Dollar amounts in thousands]

Area	Acquisition value	Legal value	Percent
CONUS	$360,000	$120,000	60
Europe	168,000	56,000	28
Pacific	72,000	24,000	12
Total	600,000	200,000	100

COUNTRIES WITH U.S. BASES

Mr. PASSMAN. In what countries does the United States presently have base right privileges?

(The information follows:)

General WARREN. Under applicable agreements, the United States has base rights privileges in the following countries and areas:

Antigua (United Kingdom)
Ascension Island (United Kingdom)
Australia
Azores (Portugal)
Bahamas (United Kingdom)
Barbados
Belgium
Bermuda (United Kingdom)
British Indian Ocean Territory
Canada
Canton Island (claimed by both United States and United Kingdom)

Ethiopia
France (use of pipeline operated by French personnel)
Germany
Greece
Greenland (Denmark)
Iceland

Italy
Japan
Korea
Morocco (use of communications facilities on Moroccan base)
Netherlands
New Zealand
Philippines
Republic of China (Taiwan)
Seychelles (United Kingdom)
Spain
Thailand
Turkey
Turks and Caicos (United Kingdom)
United Kingdom

The United States also maintains bases in the Canal Zone, Cuba, and Okinawa, under treaties with the Republic of Panama, Cuba, and Japan, respectively.

Mr. PASSMAN. What countries in the last 5 years have withdrawn base rights?

General WARREN. Libya is the only one I think of.

MOROCCO

Mr. PASSMAN. Just prior to that, Morocco?

General WARREN. No, sir. We have rights in Morocco.

Mr. PASSMAN. They are limited, are they not, General?

General WARREN. They are limited. We have the use of a communications station in Morocco.

Mr. PASSMAN. We no longer have the right to take in and out our military planes, loaded or unloaded, do we?

General WARREN. ———

Mr. PASSMAN. I would like to insert an extract from page 2005 of our fiscal year 1961 hearings, part 2 concerning this subject.

(The extract follows:)

MOROCCO

Mr. SACCIO. The United States has built and has the use of three active major airbases, a large naval air and communications complex, and an important Voice of America relay station in Morocco. In a joint communique issued at the time of President Eisenhower's visit to Morocco in December 1959, the United States agreed to evacuate these facilities by the end of 1963.

Mr. PASSMAN. What military facilities does the U.S. presently have in Morocco and what are the terms of use?

General WARREN. The U.S. withdrawal from military bases in Morocco was completed in 1963. However, it was agreed the United States Government could continue to use certain communications facilities at the naval communications station comprising Kenitra Sta-

tion and the transmitting/receiving sites at Sidi Yahia and Bouknadel. There are no terms to this agreement.

SOVIET MILITARY PERSONNEL ABROAD

Mr. LONG. I think you have raised another interesting question to which I would like to have an answer, even if it is classified. What is the distribution of Soviet personnel in these various countries in the Middle East and elsewhere? If they can put that on the record, I will be happy to have it, but if they can't, let's have it on a classified basis.

Mr. KNAUR. We can give it to you on a classified basis.

Mr. LONG. I would like to see what the extent of it is.

Mr. PASSMAN. Gentlemen, you have problems and we recognize that. We want to be helpful.

(Classified information was furnished the committee.)

REHABILITATION OF EXCESS EQUIPMENT

Mr. PASSMAN. General Warren, are there funds included in the military assistance appropriation to refurbish and refit equipment obtained through equipment loans?

General WARREN. Yes, sir.

Mr. PASSMAN. How much is contained in fiscal 1972's request for this purpose?

General WARREN. I will have to provide that for the record. I don't have it.

(The information follows:)

In the fiscal year 1972 program request we have [deleted] for refurbishing of [deleted] submarines for Turkey. Authority for the loan of two of these submarines is contained in Public Law 91-682; authority for the loan of [deleted] will be sought in a bill presently being prepared by the U.S. Navy.

Mr. PASSMAN. The excess equipment made available to Military Assistance nations, they pay for the refurbishing of this, do they not, out of their funds?

General WARREN. Were you asking about grant aid countries or all countries?

Mr. PASSMAN. I am talking about grant aid countries.

General WARREN. It is done on a country-by-country basis. We, from the MAP program, normally do the rehabilitation out of the MAP dollars allocated. If they have the capability or funds—and many of them do—they will pay for their own rehabilitation.

For example, in the case of China, we found some excess F-100's a squadron of them, and we released them to the Republic of China and they are rehabilitating them at their own expense.

Mr. PASSMAN. Not out of any grant aid funds we have given them?

General WARREN. No, sir; at their own expense.

WITHDRAWAL OF U.S. FORCES OVERSEAS

Mr. PASSMAN. General Warren, could you place in the record unclassified material indicating the level of overseas troop withdrawals planned for the immediate future, we will say for calendar 1971 and calendar 1972?

General WARREN. Yes, sir.
(The information follows:)

OVERSEAS TROOP WITHDRAWALS FOR CALENDAR YEARS 1971 AND 1972

We have under continuous review the levels of U.S. military forces stationed overseas. We will make such adjustments as our analysis indicates they are needed to promote our national interests. At the present time, during calendar years 1971 and 1972 we have plans for troop withdrawals in only two areas: the Republic of Korea and Southeast Asia. By June 30, 1971, we will complete the previously announced withdrawal of 20,000 men from Korea. In Southeast Asia, President Nixon has stated that our troop withdrawals will continue at least at the present rate of 12,500 per month for the next several months. This rate could increase, and the best way to increase the withdrawal rate is for the North Vietnamese and the Vietcong to take a positive attitude in Paris toward our proposals for a negotiated settlement.

ADEQUACY OF FISCAL YEAR 1972 MAP FUND REQUEST

Mr. PASSMAN. I would assume that your request for the military assistance program for fiscal year 1972 is your best estimate and you do not at this time anticipate the need for a supplemental?

General WARREN. That is correct, sir, except Secretary Laird mentioned yesterday that he can't guarantee that circumstances might not change and we might have to submit a request, but as of now there is no intent or requirement for a supplemental.

Mr. PASSMAN. I hope that I don't appear too favorable to some of these programs because the committee decides at what level this bill shall move out, but I am tremendously impressed with the Nixon Doctrine, that part of it that says rather clearly—if we can get away from partisan politics—that we are willing to modernize the forces but they have to furnish the men because we are bringing our troops home.

I am tremendously impressed with that philosophy, but to see that it is really moving in that direction makes me feel very good. I think he means exactly what he says. That is pretty well indicated by the fact that you are currently withdrawing 20,000 troops from Korea. You have those who say, "Well, they should have been brought out long ago." Maybe so, but you didn't bring them out. You are just now bringing them home.

U.S. INVESTMENTS IN KOREA

Now, as I read the record, right or wrong, whether it could be justified or not, we have about a $30 billion investment in Korea, when you consider the economic and military assistance, as well as the defense of Korea by our own forces and the Korean war?

Mr. LONG. Didn't we spend a lot more than that?

Mr. PASSMAN. What is the total amount that we have spent in Korea, including the Korean conflict, as well as all the grant aid programs, including, of course, military?

General WARREN. The figures I have on military assistance deliveries, cumulative through 1970, are just over $3 billion.

Mr. PASSMAN. Give us the grand total.

General WARREN. I don't have the economic figures, sir.

Mr. LONG. You are talking about the cost of the war and so forth.

Mr. PASSMAN. I want the total cost.

General WARREN. I have the military but not the economic.

Mr. PASSMAN. Give us the military cost of our own defense forces. I know what our grant aid has been. It has been $8,104 million but I want us to add to that the expenditures made by the Defense Department.

General WARREN. It was $3 billion in military assistance deliveries through fiscal year 1970.

Mr. PASSMAN. You see, General, we have a different subject altogether. I put that in the record—$8,104 million. I am talking about the expenditures that our Defense Department made to win that war: tanks, guns, men, and everything else.

General WARREN. May I put it in the record, Mr. Chairman?

Mr. PASSMAN. Yes. Do you know what we want?

General WARREN. The cost of the Korean war to the United States plus——

Mr. PASSMAN. The cost of the Korean war to the United States through the Defense Department. Then you will add to that the $8,104,200,000 in grant aid that we have given.

General WARREN. Yes, sir.

(The information follows:)

U.S. investments in Korea

	In billions of dollars
Cost of Korean war (fiscal year 1950–54)	18.0
Cost of maintaining U.S. military forces in Korea (fiscal year 1954–70)	8.6
Military assistance grant aid program (fiscal year 1950–70)	3.0
Economic assistance programs (fiscal year 1946–70)	5.1
Total	34.7

Mr. PASSMAN. General Warren, I just mentioned a moment ago about our investment in Korea. This passage is from page 1291 of the Supplemental hearings for fiscal year 1971:

> Mr. PASSMAN. Mr. Secretary, if our cause is just, then I believe it would be only proper to let the record show what investments we have made in these countries. Let us look at Korea. I think it cost some $18 billion for the aid we gave to Korea when they were invaded by the North Koreans. The following statistics apply to U.S. troops fighting in that war: Killed in action, 23,300; wounded in action, 105,785; missing in action, 5,866 and captured or interned, 7,140; dead from other than war-connected causes: 10,329.
>
> That is a tremendous investment; isn't it?
>
> Secretary LAIRD. There is no question about that.

Now, back to the statement that we have in addition to these personnel investments, $30 billion in cash outlay, and it simply means that if we feel our sacrifices have been worth while and if we are going to move our troops out, we are going to have to modernize their forces, is that correct?

General WARREN. That is right, and we have a 5-year plan worked out with the Koreans which we hope will modernize their forces if we are fortunate enough to obtain the necessary funds over the next few years.

Last year, when the supplemental was approved, that became the first increment in this 5-year modernization program which we hope to continue.

Mr. PASSMAN. We need to do that if we are going to move our troops out, or see this investment go down the drain. Would that be a fair statement?

General WARREN. I think so.

Mr. PASSMAN. I want to be positive about that because when you look at the lives lost—and this will go on, and we will be meeting expenditures of the Korean war 125 years from now.

Mr. LONG. What you are saying, Mr. Chairman, puts one in a very thoughtful mood. If it is true, it cost only $30 billion, certainly the Vietnam war was about the same scale as the Korean war while it lasted. But the Vietnam war is costing us $30 billion a year, or it did before we started to scale down the conflict.

Mr. PASSMAN. But we have an investment there and as far as I am concerned I am going to work to protect it, but this is only a part of the story. The Civil War was concluded 106 years ago. Our country is still mailing out monthly checks to 669 widows, 449 children of veterans of the Civil War. Over a thousand checks a month. We will be mailing out checks to present dependents or subsequent dependents of this Korean conflict 125 years from now because of the increased lifespan.

It is almost impossible to estimate what a conflict like that costs and, of course, we will repeat it in South Vietnam.

MODERNIZATION OF KOREAN ARMED FORCES

Mr. ROYBAL. Insofar as Korea is concerned, I think we should also know how much it will cost to modernize the Korean Army and how much of an expenditure that woulld be insofar as the United States is concerned and how much it will cost to continue our association with the Korean Army in the future.

I am sure there is an initial amount plus a continued expense in the future. Can that be made available for the record?

General WARREN. Yes, sir.

The total cost of the 5-year plan on which we are working is approximately ———. The first year, of course, was fiscal year 1971 including the supplemental of that year. I can't predict after that 5 years what we will have to do because of the unknowns regarding Korea's economy. It looks as though it will be many years before she is capable of picking up her own defense load and maintaining the equipment she has.

I expect it will be several years before the United States can withdraw support with any assurance that the Koreans can maintain the peace and stop aggression.

Mr. ROYBAL. That means we will have to continue supplying any replacement equipment or whatever they may need.

General WARREN. We hope to get Korea started on credit sales as soon as possible. I am pleased to report that this fiscal year we finally have the first self-help increment for Korea of ——— that we are planning from the fiscal year 1971 credit funds. We hope that this level will increase as her economy improves so that grant aid will be reduced and end as soon as possible. But Korea needs U.S. dollars, either through grants or credit sales, to support her inventory of U.S. weapons.

Mr. SHRIVER. If you could use the excess we were talking about earlier, how much would the requirement be reduced for the 5-year period?

General WARREN. We already have in that 5-year plan the maximum use of excess that we could estimate.

Mr. SHRIVER. I mean if there were a change in the law.

General WARREN. We don't know what equipments will be generated, sir, and that is why it is impossible to be very optimistic about supporting her forces with excess equipments. Many of the excesses are types of equipment that do not meet the requirements for Korea. It is impossible to predict, but we have as many excess items in the ——— plan as can reasonably be expected to be available.

Mr. PASSMAN. Is Korea developing into a cash customer of ours in other areas?

General WARREN. Sir, only on a very small basis because she does not have much foreign exchange.

Mr. PASSMAN. But their economy is building up very rapidly and they are building up gradually a foreign exchange surplus, are they not?

General WARREN. Yes, sir.

Mr. PASSMAN. And they are buying some commodities from us on a cash basis, are they not?

Put that in the record if you don't have it.

General WARREN. Yes, sir.

(The information follows:)

FMS SALES TO KOREA ON A CASH BASIS

Korea has been procuring from us a modest amount of defense materiel on a cash basis as follows:

Fiscal year:	*Millions*
1968	$1.5
1969	.7
1970	1.9

So far in fiscal year 1971 Korea has procured approximately $800,000 from the United States on a cash basis. The kinds of commodities they are buying on a cash basis are principally weapons repair parts, inexpensive communications equipment, and communications repair parts.

Mr. PASSMAN. In your military credit sales justification being presented to the committee now there is ——— listed for Korea.

General WARREN. Yes, sir.

Mr. PASSMAN. Will that be on the minimum terms with the prevailing rate of interest?

General WARREN. Yes, sir.

Mr. PASSMAN. But it is on the prevailing rate of interest, the same as any other customers?

General WARREN. Yes, sir.

Mr. PASSMAN. And there is no concession on interest going to be made?

General WARREN. That is correct.

Mr. PASSMAN. In addition to the ——— we will make available over a period of 5 years in grant military aid, you are trying now to switch them over to credit sales on regular terms?

General WARREN. If they are able, we would like to see them purchase as many of the modernization items as possible.

Mr. PASSMAN. Now, if their economy should continue strong and continue to build to where they could pay for more of their equipment, would you be permitted to lower the grant aid or is this a fixed contract?

General WARREN. There is no formal commitment, Mr. Chairman, at all on the grant aid for future years. It is just a plan that we have worked up that would provide Korea with fairly modern forces if we are able to execute it.

Mr. PASSMAN. Then it could go up or down, depending upon the world situation as well as the economy in Korea?

General WARREN. We know the items needed, sir, and there is no formal commitment to any given MAP level. We will have to implement each year as it comes.

Mr. PASSMAN. We are approaching this on the basis of protecting this investment and we are thinking in terms of not only security for the troops of South Korea, but security for our own country. It is supposed to be an item of teamwork, is it not?

General WARREN. Yes, sir.

COMMUNIST ASSISTANCE TO NORTH KOREA

Mr. LONG. At this point, it would be interesting to have in the record what the Chinese Communists and the Russians are supplying to North Korea. You know, the North Koreans are not nine feet tall. They must have their economic problems. There is no reason why we should, let's say, pamper our allies any more than the Communists are pampering theirs.

General WARREN. They put in about ——— during fiscal years 1969 and 1970.

Mr. LONG. Their aid is chicken feed compared with ours. I understand the South Koreans have a flourishing economy. That makes me wonder why they can't stand on their own feet as well as the North Koreans can.

Mr. PASSMAN. I am bound to believe it is appropriate and quite impressive to indicate our investment in Korea because when we speak of investment, we are talking about the sacrifice of lives as well as the dollars and it is perfectly obvious unless we go through with some type of plan all of this could very easily go down the drain. So in that context I think of it as protecting not only an investment but we must look into the future, so I do think of it as protecting the security of this country and our commitments. We have no alternative other than to give some consideration to helping these people update or modernize their military forces on the basis of the Nixon doctrine so we can bring our people home.

FIVE-YEAR MAP FOR KOREA

You gave us a word of encouragement, General, a little while ago, and I hope it is not going to be changed. I want to be sure I understand it.

The ——— is the maximum you see we will have to spend on grant aid in the next 5 years for Korea.

General WARREN. Yes, sir; that is our projected program.

Mr. PASSMAN. That is based upon present-day conditions, but if they continue to build a strong economy, build up the foreign exchange accounts, conceivably they could do more buying and, if that be true, then you could lower the amount.

General WARREN. Our discussions with the Koreans have been in terms of items, not dollars, and we would hope that, as the economy improves, they could purchase some of the items, either through credit or cash sales.

Mr. PASSMAN. You are only using the maximum and hoping that you could possibly work that downward, switching from grant aid to military sales.

General WARREN. We hope so, yes, sir.

Mr. PASSMAN. That is what we wanted to establish.

I see that approximately ——— percent of the NOA request for fiscal 1972 will be allocated to Cambodia and Korea; is that correct?

General WARREN. Sir, it is just over ——— percent.

Mr. PASSMAN. I assume you consider these two countries to be very important in stemming the threat of Communist aggression and that is the reason for their large allocations; is that correct, General?

General WARREN. That is correct. These are two countries that illustrate the Nixon Doctrine at work. We have already pulled our combat ground forces out of Cambodia and we are pulling some of our troops out of Korea.

SITUATION IN CAMBODIA

Mr. PASSMAN. Gentlemen, the committee would be interested in knowing what you think about the conditions in Cambodia at this time. Is the Government stable?

You are estimating ——— for Cambodia and that is an awful lot of money for a very small country and a brand new government, Would you give us some indication as to the stability of the government?

Mr. CHAPMAN. We believe that this government remains very popular with significant elements of the population, and the best illustration of the stability is the fact that the head of the government, Gen. Lon Nol, had a heart attack 2 months ago and he has been recovering in Hawaii since then. Despite his absence, his government has remained in power, in charge of the country, and there is no indication that there are any elements that want to overthrow it.

Mr. PASSMAN. Are they holding their own against the enemy?

General WARREN. Yes; things are going reasonably well, as Admiral Moorer pointed out yesterday. We have an equipment delivery team in there that seems to be functioning well. It is attached to the embassy. From the funds that we have so far, around ——— worth of material has been delivered into Cambodia, of which nearly 70 percent was ammunition. So the supply operation is going fairly well, and the training of their army, which is all volunteer, is going well. They went from somewhat over 35,000 largely untrained troops to almost 200,000 troops now, mainly ground forces, and are doing well.

Mr. PASSMAN. General, in addition to ——— in this request for military assistance in Cambodia, I guess there is a request for economic assistance too, is there not? Do you know whether or not you have any request for it, Mr. Secretary?

Mr. CHAPMAN. There will be, but I am not sure how closely the figure is yet defined.

Mr. PASSMAN. What is the size of this country, area and population?

Mr. CHAPMAN. The area is about 66,000 square miles, about the size of Missouri, and the population is almost 7 million.

Mr. PASSMAN. It simply means, gentlemen, we are saddling on our backs another nation that we are just going to have to mother in all probability long into the future because those people have no way of earning sufficient foreign exchange to maintain this size military force, do they?

General WARREN. They have only a limited capability in the foreseeable future, sir.

Mr. PASSMAN. We are really over-extended in many areas. I have no quarrel with what has happened, but this thing could be expensive.

General WARREN. I was in Laos a few months ago—I didn't get into Cambodia, but I had a good briefing by General Abrams and others. One result from the actions over there, at least is the pinning down of large numbers of North Vietnamese or other troops that could be used against Saigon. As the committee knows, unless something is done in Cambodia it becomes a supply refuge, and the same situation exists that that we had in the Korean War where we couldn't go across the Yalu River, and the enemy could stay north of the river until he wanted to come down. I would estimate that a substantial number of allied casualties have been as a result of people and supplies coming through Cambodia because the border is only about 30 miles from Saigon. It is part of our interest, in withdrawing from South Vietnam, that that country remain stable and in a position to fight off the invasion from North Vietnam.

Mr. PASSMAN. General Warren, I seldom get into policy making because our responsibility is furnishing the funds to implement our policy, but it is good to make a record. Here we are entering into these economic and military aid pacts and it simply means that even after withdrawal these people are not going to be able to maintain this size military establishment without large military grant aid and economic grant aid from this country. We just don't get out after we once get it, and I wouldn't be a bit surprised if these people are not going to be just like the Laotians and the South Vietnamese. A lot of them are going to start waxing fat. They learn what profit means in a hurry and I just hope we don't let these people take us. We should do what we have to do and let them support themselves as soon as possible.

When you start grant military aid, you might as well get ready for possibly the same amount or more in economic aid.

TEN PRINCIPAL MAP RECIPIENTS

Now, along the same lines, you indicate that 10 countries will account for 95 percent of the total obligational authority requested for the military assistance program for fiscal 1972, is that correct?

General WARREN. Yes, sir.

Mr. PASSMAN. Will you place in the record the list of the 10 countries, General?

General WARREN. Yes, sir.

(The information follows:)

The following 10 countries account for nearly 95 percent of the total amount allocated for fiscal year 1972 country programs:

[In millions of dollars]

Republic of Korea	———	Greece	———
Cambodia	———	Republic of China	———
Turkey	———	Philippines	———
Jordan	———	Spain	———
Indonesia	———	Ethiopia	———

CONTINGENCY FUND IN NEW LEGISLATION

Mr. PASSMAN. You indicate no material will be provided for Latin America except what becomes available from the contingency fund.

General WARREN. Yes, sir.

Mr. PASSMAN. Now, is the contingency fund a part of your $705 million request?

General WARREN. No, sir, it is not. The reason it was proposed this way is because of the uncertainties of certain countries in Latin America. We would like to be in a position, in the event some kind of a crisis comes up, of being able to have flexibility to insure that funds go to the right place in an emergency.

Mr. PASSMAN. It simply means the $100 million will be completely without limitations. You could divide it up or you could give it all to one country. You are making no justification by country. You are just asking for a contingency fund of $100 million, is that correct?

General WARREN. If you are speaking of that $100 million presidential contingency fund that may be in the new assistance legislation about to be proposed, my statement does not apply. I didn't understand you to be asking about that. That is for any type of aid anywhere in the world, I believe.

Mr. CHAPMAN. This will probably be in the new legislation which the Administration will present.

Mr. PASSMAN. Is that a correct statement I made?

Mr. CHAPMAN. No, sir, it is not included in the $705 million. It will be a contingency fund for all programs.

Mr. PASSMAN. Over and above the $705 million?

Mr. CHAPMAN. Yes, sir, but for all programs. Military, economic and humanitarian; it is a separate fund.

Mr. PASSMAN. Before this fund was about $10 or $15 million but now you build a contingency request up to about $100 million and are you going to be able to tell the committee at the proper time your limitations on military and economic aid out of this program or is it just going to be all for economic or all for military?

Mr. CHAPMAN. It will be for all programs at the disposal of the President.

Mr. PASSMAN. I know, but this committee will not know. As you know in the past it has been $5, $10 and $15 million in the contingency fund and now you ask for $100 million and you have no limitations. When you get the $100 million, it is strictly on an illustrative basis with no limitations applying. We know not what percentage will be used for military or economic aid.

This is rather a loose approach. You could—I don't say that you would, but you could take the $100 million and put it all in military

and give it to one country if we give it to you on the basis on which you request it.

Mr. CHAPMAN. I think you will find there are limitations in the new legislation.

Mr. PASSMAN. I want to know at the proper time where they are. There has never been any limitation, Mr. Secretary, on the contingency fund.

Mr. CHAPMAN. I think there is a limitation of $100 million to be provided to any single country——

Mr. PASSMAN. You give the President a contingency fund so as to take care of emergencies. We never know what it is going to be spent for until after the fact. I want to read from your justifications:

"Finally, the program proposed for Latin America provides that no materiel except that which may become available from the contingency fund and none of the 17 training only country programs included amounts to more than $900,000." So you don't even know what may become available.

Mr. CHAPMAN. If the President determines there is an emergency, he would have those funds available.

Mr. PASSMAN. This is the most excessive request that has ever been considered by any congressional committee and that is the request for $100 million for the contingency fund. I don't know just how the committee is going to look upon this request. Usually they have been satisfied with $10 to $15 million and this is too much money and we have no way of knowing what it will be spent for.

Mr. LONG. Will the Chairman yield?

Mr. PASSMAN. Yes; I yield.

Mr. LONG. Does the President have to consult with the committee or with the chairman?

Mr. PASSMAN. No.

Mr. LONG. Can't we stipulate that the committee be consulted on this?

Mr. PASSMAN. No; let's wait for developments. We don't have the legislation yet.

CONTROLS ON THE MILITARY ASSISTANCE PROGRAM

General WARREN. Mr. Chairman, may I make one point on the matter of control? In our CPD, as you know, the planned country ceilings are presented to the Congress. In some cases the President has to approve a PD if we exceed them.

Mr. PASSMAN. A what?

General WARREN. A Presidential Determination. The other point is—and it came up yesterday—I have here a list of the countries that are eligible for either sales or grant aid which is worked up each year between State and Defense.

PROPOSED CONTINGENCY FUND

Mr. PASSMAN. Thank you, General. You are very fair. Nevertheless, it follows that in the overall you are asking for a $100 million contingency fund, something separate from this, something to play with over and above the regular request. If I remember correctly, Mr. Secretary, the request last year was $15 million?

Mr. CHAPMAN. As I recall it; yes, sir.

Mr. PASSMAN. That means the contingency fund increase is in addition to the multilateral request increase. You are asking for a 600-percent increase in the President's contingency fund.

Mr. LONG. Couldn't this be considered a slush fund?

Mr. KNAUR. I have a rough draft of the legislation and there is a section which says, "The President shall provide quarterly reports to the Congress on his use of the fund."

Mr. PASSMAN. You do that on everything. That is nothing new.

Would you please explain the operation of the contingency fund? Put it in the record.

(The information follows:)

CONTINGENCY FUND

This fund is to provide the President the necessary means of coping with unforeseen and serious emergencies.

It enables him to choose among all the instrumentalities authorized under the International Security Assistance and the Development and Humanitarian Acts to meet such situations in the most effective way.

The fund is appropriated to the President and will be used on his authority.

The division of AID into different bodies reduces the amounts of the funds which can be transferred among the various programs. The size of the fund is thus intended to compensate for the loss of flexibility.

The experience of this year gives a good illustration of the difficulties created by the lack of an adequate contingency fund.

In response to the Cambodian Government's appeal to all nations and the evidence of the North Vietnamese effort in that country, we provided Cambodia $40 million in military assistance in July 1970.

To obtain this amount, we had to eliminate all materiel assistance to Latin America and cut major military assistance programs (Greece, Turkey, and the Republic of China) by 25–50 percent.

When the level of fighting rose and created additional needs, we had to transfer $60 million from supporting assistance which had been programed for Vietnam.

Moreover, through the first half of fiscal year 1971, we had already programed some $6 million in disaster relief principally for Jordan and Pakistan. (This year's contingency fund amounts to $15 million. Congress also voted $7.5 million for Pakistan flood relief—only $2 million of which so far has been used.)

However, the continuing crisis in Cambodia required that the Executive go to Congress in November for additional funds.

Fortunately, Congress recognized the severe damage done to these programs and restored them to their originally planned levels through the Supplemental Act.

Congress will be in a position to exercise full control. Use of this fund will be reported quarterly, and our experience so far in fiscal year 1971 shows that in any major emergency, the Executive will have to go back to Congress for an accounting and a request for funds.

FOREIGN COUNTRY PAYMENTS FOR MAAGS

Mr. PASSMAN. Now, gentlemen, I had an opportunity to spend a busy day in Paris at the AID headquarters where we met with your MAGG chief and his assistant, as well as with the AID people, and we were somewhat surprised to learn that the French themselves are paying the expense of the MAAG people there. They are willing to pay the expense of the MAGG people just to have that American military exposure. Is that your understanding of it?

General WARREN. Sir, each country differs. In many countries the host country does pay the cost.

Mr. PASSMAN. I am talking about France only.

General WARREN. I don't know the details of the situation in France. I will provide it for the record.

(The information follows:)

Cost of operating MAAG France compared with amount of currency contributed for fiscal year 1970

Total MAAG cost (including pay and allowances)	$355,000
Currency contributed by Government of France	−94,000
Cost not recovered through contributed currency	261,000

General WARREN. When they do that though in France, or these other countries, Mr. Chairman, we have to put the same amount of money—we have to cancel from our bank account of grant funds the same amount in American dollars and leave them in the Treasury that France provides in her local currencies.

Mr. PASSMAN. But you leave them in our Treasury?

General WARREN. Yes, sir.

Mr. PASSMAN. They don't resolve to the benefit of France?

General WARREN. That is right, sir.

NEED FOR MILITARY ASSISTANCE ADVISORY GROUPS

Mr. PASSMAN. The only point I am trying to make is, in France, so as to have their people exposed to our military personnel, they are willing to pick up the expense of maintaining the MAAG forces up to, I believe, a million francs a year.

General WARREN. Yes.

Mr. PASSMAN. I make that statement because at one time—I don't know how many years ago—one of our ambassadors wanted to abolish the MAAG staff and place it under State. You may have heard something about that.

General WARREN. Yes, sir.

Mr. PASSMAN. As long as we could maintain the MAAG staff and have the military people there we, to my way of thinking, should maintain it because we still have in excess of $1 billion worth of military equipment that is either being used by or under the French; is that correct?

General WARREN. Yes, sir.

Mr. PASSMAN. And I would assume the military people would know more about whether or not this military equipment is being properly cared for than possibly the civilian components of the operation?

General WARREN. That is correct; yes, sir.

Mr. PASSMAN. I think we are making a contribution by pointing this out because I don't know whether they realize that we have a billion dollars worth of equipment that must be checked regularly as to whether it is properly used or whether or not they are discarding it, and that when it is discarded it comes back as our property.

General WARREN. Yes, sir.

Mr. PASSMAN. And, of course, they are also making sales from this store of equipment, are they not?

General WARREN. Without U.S. approval, they couldn't.

Mr. PASSMAN. I wouldn't think they would do anything without U.S. approval. I am talking about our personnel. We would like to have the whole story.

General WARREN. The Defense Department and the Unified Commanders feel that retention of those MAAG's, even though they are

reduced way down, is extremely important. In Denmark it is as you mentioned with France. The Danes pay the cost of all the overhead and transportation and they want to keep the MAAG there.

There have been proposals, still under study, to do away with them in five of the Western European countries. No final decision has been made. I favor retaining them for the same reasons you mention.

MILITARY ASSISTANCE TRAINING

Mr. PASSMAN. General, you indicate it will cost $37,529,000 to train 8,632 trainees in fiscal 1971 and $38,157,000 to train 7,736 trainees in fiscal year 1972. Could you explain this increased cost when the number of trainees has been reduced by about 900 in fiscal year 1972?

General WARREN. Part of it is increases in pay to our overhead people involved in the training program. That does not account for all the increases because there are also increases in the costs of many items.

There is one other factor. The cost of our various training courses has increased markedly but these costs are not directly related to the number of students attending a course.

As a matter of information, we are selling more training than we are giving away under the grant program. Our 1971 sales training is $12 million more than the grant and our 1972 is $21 million more. Some of the courses, such as pilot training, cost a hundred thousand dollars roughly, per individual, while others are less expensive.

Mr. PASSMAN. On balance, this program is about the same, isn't it, year in and year out? So many pilots, so many tank operators, so many riflemen.

General WARREN. It has been running about that way.

There are a lot of problems I won't go into on pilot training. We don't have enough capability to train all that we want in the United States, but we are trying to work in some of them.

There are other factors I would be pleased to provide to the record as to the reason for this increase in cost.

Mr. PASSMAN. I wish you would because, after all, you have reduced the number of trainees by 900 and yet you have an increase. Give us some information.

It seems you have the same courses that you have had in the past. Perhaps there has been a tremendous increase in pilots for specialized training where there is some justification. Please put it into the record, General.

(The information follows:)

INCREASED COST OF TRAINING

The other factors which caused the increase in training cost for fiscal year 1972 are as follows:

a. Higher course costs.

Examples: Cost of training by the Air Force for A–1 aircraft pilots increased from $34,660 to $41,700 and F–5 pilot training from $39,360 to $45,200; Navy training for TA4J pilots increased from $64,980 to $71,840, and for construction electricians from $260 to $460; and Army training for USD helicopter pilot training increased from $3,070 to $3,790 and for ground control radar repair $2,150 to $3,120.

b. An increase in living allowances for the first time in 11 years, is reflected for the first time in the fiscal year 1972 program.

c. ———

Mr. PASSMAN. Place in the record a table summarizing your training program which appears on page 11 of your justifications.

(The information follows:)

MAP TRAINING PROGRAM

[Fiscal years]

Area	Total training program (dollars in thousands)			Foreign military trainees								
				United States			Overseas			Total		
	1970	1971	Proposed 1972	1970	1971	Proposed 1972	1970	1971	Proposed 1972	1970	1971	Proposed 1972
East Asia and Pacific	9,753	11,104	13,936	953	719	919	1,079	785	487	2,032	1,504	1,406
Near East and South Asia	9,067	8,153	6,373	1,594	1,212	907	167	150	185	1,761	1,362	1,092
Europe	1,200	1,059	1,417	337	322	235	57	97	68	394	419	303
Africa	3,466	3,842	3,553	467	398	427	315	326	243	782	724	670
Latin America	8,868	10,329	9,868	1,433	1,349	1,256	2,330	3,274	3,009	3,763	4,623	4,265
Nonregional	3,763	3,042	3,010									
Worldwide total	36,117	37,529	38,157	4,784	4,000	3,744	3,948	4,632	3,992	8,732	8,632	7,736

GAO REPORT ON MAP TRAINING

Mr. PASSMAN. The General Accounting Office has made some serious statements concerning the operation of the military assistance training programs. I shall read this into the record and I think it is only fair that you have an opportunity to respond for the record. You may want to elaborate on it later. The GAO report states the following:

(*a*) Some training was not necessary or not of high priority.
(*b*) Some training was related to equipment not on hand.
(*c*) There was inadequate consideration by the U.S. resident military advisers of the recipient countries' capabilities to provide training from their own resources.
(*d*) No formal efforts have been made to correlate military assistance training programs with other U.S. Government programs such as English language training.
(*e*) Trainees are not screened and tested enough ahead of time to insure that a sufficient number are available to attend a scheduled course. Therefore, some courses have been canceled or deferred.
(*f*) Some trainees were not able to comprehend English well enough to attend certain courses.

Are these valid complaints made against the training program by GAO? Have any efforts been made on the part of the Department of Defense to correct the training program deficiencies? I think it is only fair that you respond point by point and put it in the record.

General WARREN. Very well, sir. May I make a general statement?

Mr. PASSMAN. We would like you to.

General WARREN. That group went out at the request of the Chairman of the Senate Foreign Relations Committee. Defense was not given a chance to look at the report except some time back when GAO representatives asked us about what portions were classified. We received it just last week for review. Without going into detail, the entire report seems dedicated to digging up unfortunate and uncommon things.

Many of the allegations are incorrect or misleading. Some of them, they are correct insofar as they go. For instance, one of the remarks was, "You are training people in country X to fly twin-engine aircraft and it doesn't have any".

That is an irresponsible comment on the part of GAO. The reason we were training them is that we were about to give them twin-engine airplanes, which they now have. That is an example of a misleading remark.

The points you made, sir, on the individuals who were not properly screened coming here for training, relates, in part, to whether they can pass an English language test and certain other tests. Foreign students are not necessarily required to pass the same English tests or other tests that our people must pass. We have the authority to waive tests. In one group that GAO criticised, there were about 12 men; each took the course, did well, and graduated. I won't waste further time on comment, but I would be happy to put in the record a more detailed answer.

That report seems to have been slanted to cut at the program, to tear it down. The report is full of inconsistencies and ill-advised comments.

We are unable to provide a complete response to the report at this time. The GAO report in question was received in the Department of Defense on March 5, 1971, and is being staffed through all agencies involved in military assistance training programs in all 10 countries. Upon completion of our detailed review of the report, we will provide a separate response to you.

COLLUSION BETWEEN MILITARY AND INDUSTRY

Mr. PASSMAN. Thank you, General Warren. This charge has been made. I have been reluctant to ever ask this question. I never want to commit an offense, but it may be quite apropos to ask this question, inasmuch as you have heard it a thousand times. Is there any collusion between the military and manufacturers of military equipment, "You scratch my back and I'll scratch yours. If we can keep a large military organization, there is always room for promotion enlargement. Of course then we have to buy your equipment." Is there any such trend that you know about, implied or otherwise, between other nations and manufacturers to keep this thing going, from a profit promotion standpoint.

Mr. LONG. Heaven forbid.

General WARREN. Sir, I believe you also mentioned "* * * of other nations * * *" perhaps in the case of France and the United Kingdom. Their policy is entirely different than ours, and is greatly profit motivated. By selling in other countries, they are able to set up and maintain close relations and squeeze out the United States or other countries. Latin America is an excellent example.

Domestically your comments are probably correct in some individual cases, where individuals with no particular scruples in the service have done things they shouldn't, but I would always regard those as isolated cases.

Mr. PASSMAN. The exception and not the rule.

General WARREN. The officers that I know well in the procurement business—and that is where most of it is—are just as honest and dedicated as anyone I know.

Mr. PASSMAN. I subscribe to that fully and I just wanted a statement on it because we have heard the charge made, and I am glad that you were so forthright on the subject.

(Discussion off the record.)

FOREIGN MILITARY SALES

Mr. PASSMAN. Is it not true that you plan to have a total foreign military sales program in fiscal year 1972 of $2,145,600,000?

General WARREN. Yes, sir.

Mr. PASSMAN. Would you please break down that total into the cash sales and credit sales?

General WARREN. The breakdown of the estimated total fiscal year 1972 foreign military sales program of $2,145,600,000 is as follows:

Cash	$1,563,600,000
Credit	582,000,000

COMMERCIAL SALES

Mr. PASSMAN. In addition to this large amount for foreign military sales, you indicate that $564,600,000 will be provided in commercial sales. Please explain this item?

General WARREN. Total U.S. military exports are broken down into two categories:

(*a*) Foreign military sales are those sales made by the U.S. Government to foreign governments on a government-to-government basis.

(*b*) Commercial sales are sales of defense articles or services made by U.S. firms directly to foreign governments.

In the case of a commercial sale the U.S. firm involved must apply for an export license if the item to be exported is termed an article under the International Traffic in Arms Regulation published by the Office of Munitions Control, State Department, and, of course, the approval of such a license by the Office of Munitions Control is necessary. We do estimate for fiscal year 1972 commercial sales deliveries amounting to approximately $564.6 million. FMS sales orders on a government-to-government basis are estimated at $2,145,600,000. (Estimates for commercial sales orders are not available.)

FISCAL YEAR 1972 FOREIGN MILITARY SALES CREDIT PROGRAM

Mr. PASSMAN. This committee deals with the credit sales portion of of the program which is estimated to be $582 million in fiscal year 1972, of which $510 million is being requested for appropriation; is that correct?

General WARREN. That is correct. We are requesting a total FMS credit program in the amount of $582 million in fiscal year 1972 and we are requesting an appropriation of $510 million. We plan to utilize the $510 million in the following manner: $486 million for direct DOD credits plus $24 million to guarantee an anticipated $96 million of private financing that we hope to obtain.

REVIEW AND APPROVAL OF FOREIGN MILITARY CASH SALES

Mr. PASSMAN. General, do you get involved in the cash sales portion of the program in order to provide some sort of control? If so, please explain what duties you perform.

General WARREN. My office is actively involved in the review and approval of cash sales made under the authority of the Foreign Military Sales Act. Together with the State Department we have established and periodically review the instructions issued to our MAAG's and other military missions abroad concerning purchase requests made by countries for sale of defense articles and services on a government-to-government basis. For example, we have instructed our MAAG's in foreign countries as well as the foreign military attachés in embassies here in Washington that all requests, both for cash and credit sales, from less-developed countries be channeled initially to our State Department.

The State politico-military affairs, country desk and regional staffs at State carefully review the request. If approved, State sends it to my office where we may consult with a number of offices and agencies within

Defense, depending on the nature of the item. For example: we might ask the JCS views on the military aspects of the countries acquisition of the item; we consult with the materiel acquisition staff in the Assistant Secretary for Installations and Logistics if the item is in critical supply for U.S. forces; and, we consult with our own regional affairs offices in ISA.

If one of the Military Departments receives a request for a sales letter of offer direct from a less-developed country, they do not act on it. In accordance with procedures issued by us, the military departments forward it to my office for the State and Defense review process described above.

We give the Military Department approval authority for some categories of cash sales to developed countries. An example is repair parts for major weapons systems previously sold to the country.

REPAYMENTS OF CREDIT EXTENDED UNDER THE FMS ACT

Mr. PASSMAN. When the funds are paid back to the United States from those credit sales, doesn't that money return to the U.S. Treasury with the interest?

General WARREN. That is correct. All repayments of principal and interest made by countries who have received credit extended under authority of the Foreign Military Sales Act are returned to the U.S. Treasury without exception.

TERMS OF SALES

Mr. PASSMAN. What are the present average terms of these credit sales?

General WARREN. We have concluded one credit arrangement with fiscal year 1971 funds appropriated to use under the Foreign Military Sales Act. This arrangement was concluded in March 1971 for $15 million at 5⅞ percent interest, which was then prevailing rate of cost of money to the U.S. Government, and with a 10-year repayment term. We expect that all remaining arrangements to be concluded will be at effective rates of interest charged to the borrower, of not less than the prevailing cost of money to the U.S. Government and that the repayment time will be between 5 and 10 years.

Mr. PASSMAN. This program used to operate on a revolving fund basis but that fund has now been abolished, is that correct?

General WARREN. That is correct, Mr. Chairman. The revolving fund, for purposes of new obligations, was abolished on June 30, 1968, and is now in the process of being liquidated.

FMS TRUST FUND

Mr. PASSMAN. General, would you please explain the foreign military sales trust fund for which there is a budget item of $850 million in contract authority for fiscal year 1972?

General WARREN. The Foreign Military Sales Trust Fund consists of U.S. Treasury accounts established for the Military Departments to accept collections received from foreign countries covering cash sales made under sections 21 and 22 of the Foreign Military Sales Act. The

funds deposited into the FMS trust fund accounts are used to pay the Military Departments for sales of defense articles and services.

Mr. PASSMAN. What part does this trust fund play in your overall operation?

General WARREN. The trust fund is an account whereby we separately identify cash collected by us from foreign countries for foreign military sales under sections 21 and 22 of the Foreign Military Sales Act. These cash sales represent the great bulk of our foreign military sales business. During the 3-year period fiscal years 1968–70, cash sales totaled $3,151 million, compared with credit sales of $615 million during the same period.

PRIVATE FINANCING

Mr. PASSMAN. You indicate that only $96 million of the credit sales program in fiscal year 1972 is going to be privately financed. Don't you think it would be possible to encourage a greater participation by the private sector?

General WARREN. Yes; we do hope to encourage private banks for greater participation in financing these credits for foreign military sales. We are now receiving greater signs of interest from the private banking sector than in the past and we will make every effort to reduce the direct use of appropriated funds by using the guarantee authority.

ILLUSTRATIVE PROGRAM

Mr. PASSMAN. You indicate some countries may be dropped from the credit sales program and new countries added before the fiscal year 1972 program is complete, I assume this program like the MAP program is illustrative, is that correct?

General WARREN. Yes, sir.

Mr. PASSMAN. Even though the program is illustrative, I assume you still try to come up with a firm plan for each year, is that correct?

General WARREN. Yes; we consider it illustrative because there may be changes made by additions or deletions in a country's program between the time we prepare the Foreign Military Sales Congressional Presentation Document and the time a credit arrangement is actually concluded with a country. We do attempt to have a firm credit plan with each country as early as possible during each fiscal year.

CREDIT SALES TO ISRAEL

Mr. PASSMAN. I note that out of the $510 million NOA request for fiscal year 1972, you are requesting ——— for Israel. Would you please tell us the amount of credit sales proposed to be extended to Israel for fiscal year 1970, fiscal year 1971 and fiscal year 1972 if the present situation continues and could you also tell the committee what amount of credit sales will be extended to Israel in future years?

General WARREN. In fiscal year 1970, we extended ——— of credit for sales to Israel under continuing resolution authority (CRA) of the FMS Act. In fiscal year 1971, we have extended $500 million credit for sales under section 501 of the Military Procurement Act. We now plan on extending ——— of credit for sales to Israel in fiscal year 1972. We cannot accurately estimate how much credit will be required for Israel

beyond fiscal year 1972 since it depends on the future course of events in the Middle East.

Mr. PASSMAN. What are the credit terms of the sales extended to Israel?

(The information was submitted to the committee.)

Mr. PASSMAN. Why did you find it necessary to set up a separate account for credit sales to Israel last year and this year you included the request under the regular program account?

General WARREN. Mr. Chairman, you may recall that during fiscal year 1970, although no regular FMS credit legislation was enacted, we were able to conclude an FMS credit agreement with Israel for $30 million under continuing resolution authority (CRA) before that authority expired on 28 January 1970. As you know, authorizing legislation for fiscal year 1970 and fiscal year 1971 credit sales remained in joint Senate-House conference for an inordinate length of time because of certain proposed amendments not related to the FMS Act. During fiscal year 1970, when we had no regular FMS credit appropriations and during the first 6 months of fiscal year 1971 when the prospects of FMS credit legislation appeared most uncertain, Israel's orders for U.S. defense equipment mounted very rapidly.

Continued large scale shipments of military equipment by the Soviet Union to some of the belligerents in the Middle East and the build up of the surface-to-air missile complex in the cease-fire zone of the Suez Canal in disregard of the cease-fire agreement necessitated our providing Israel with the defense equipment to maintain her defense capability and a military balance in that area. In the absence of FMS credit we were compelled to request payment from Israel on a cash basis. Unless we provided some form of additional credit, Israel would have been faced with a grave financial situation and might have been forced to default on $430 million of payments due during fiscal year 1971. If this had occurred, the Military Departments might not have been reimbursed for many millions of dollars in costs already then incurred, ongoing contracts would have been canceled at considerable cost, and Israel might not have received equipment it expected and urgently required. Use of section 501 (the Jackson amendment) of the Military Procurement Act authorization and $500 million appropriation subsequently enacted averted a very chaotic situation. With the press of time now less urgent, we propose to regularize our FMS program for Israel by including the anticipated Israeli credit requests for fiscal year 1972 in the regular FMS credit program.

OPERATION UNDER CONTINUING RESOLUTION

Mr. PASSMAN. Since the credit sales program was not funded in fiscal year 1970 due to the lateness of the authorizing legislation, you were forced to operate under a continuing resolution. What funds were available to this program in fiscal year 1970?

General WARREN. You are correct, Mr. Chairman, that the credit sales program was not regularly funded in fiscal year 1970 and that we were forced to operate under a continuing resolution authority; $269 million was received in appropriations for the fiscal year 1969 for carrying out the Foreign Military Sales Act. Under continuing reso-

lution authority during fiscal year 1970 we were able to conclude $70 million of credit agreements before the expiration of the continuing resolution authority on January 28, 1970.

PROGRAM FOR CHILE

Mr. PASSMAN. I notice you propose to extend a credit sales program to Chile for fiscal years 1971 and 1972. Why are we providing credit to a country with a Marxist government in power?

General WARREN. It is true that we have included Chile in our illustrative credit sales program for fiscal years 1971 and 1972. ———.

FORCE MODERNIZATION

Mr. PASSMAN. I note in a number of Latin American countries you list that credit or cash sales are being provided for "force modernization" with no specific items mentioned. Would you explain this item?

General WARREN. Many of the Latin American countries have very old equipment in their inventory. For the most part, this equipment is obsolescent and very expensive to maintain and operate.

Examples of these obsolescent items are: C–47 transport aircraft, T–6 trainer aircraft, F–86 fighter aircraft, L–20 observation aircraft, tracked and wheeled vehicles that are over 15 years old, and World War II vintage small arms and artillery pieces. It is natural that the Latin American countries desire and require a modest amount of modern defense weapons.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. Are the administrative expenses for these sales programs administered under the military assistance item?

General WARREN. Mr. Chairman, you are correct that the cost of administering the Department of Defense sales program at the U.S. seat of Government as well as the cost of sales administration performed by our MAAG's and missions in foreign countries are paid for by MAP funds. There are also some administrative expenses directly connected with each foreign military sales case; to cover these direct administrative expenses, we add a 2-percent administrative charge to the sales case. This administrative charge is to cover the expenses of such things as preparing letters of offer, actual procurement of the item, performing inspection and quality control of the item on the production line, and other direct expenses associated with a specific sales case.

FISCAL YEAR 1972 PROGRAM FOR EAST ASIA AND PACIFIC

Mr. PASSMAN. What countries beside Cambodia are supplying troops to assist with the war in Vietnam?

General WARREN. Sir, the following countries are presently providing troop support to the Republic of Vietnam: Australia, Republic of Korea, New Zealand, and Thailand.

Mr. PASSMAN. I assume, because of the large allocation of funds to this region you attach a great deal of importance to this area of the world in the effort to combat communist aggression, is that correct?

General WARREN. Yes.

COST CATEGORIES

Mr. PASSMAN. Would you furnish for the record a table showing the percentage and the amount of the $501,100,000 which is planned to be allocated in fiscal year 1972 for operation, investment, and training in this area?

General WARREN. The following table provides that information:

[Dollar amounts in thousands]

Type of cost	Amount	Percent
Operating	$319,951	64
Investment	167,213	33
Training	13,936	3
Total	501,100	100

INVESTMENT COSTS

Mr. PASSMAN. I note that only 33 percent of the fiscal year 1972 allocations is programed for investment in this region.

I know this is an improvement over last year's estimate, but don't you think this is a small amount for new equipment?

General WARREN. Yes I do, and it points up the fact that we must continue to allocate a disproportionately high percentage of total funds to operating and maintenance costs merely to maintain the *status quo*. The picture has improved somewhat over last year's estimate because the supplemental appropriation for fiscal year 1971 made it possible to initiate a force modernization program for the Republic of Korea.

U.S. TROOP REDUCTION

Mr. PASSMAN. You indicate in your justifications that U.S. military presence is being reduced in South Korea, Japan, the Philippines and Thailand. Could you tell the committee how many troops have been withdrawn from each of these countries this past year?

General WARREN. After referring to U.S. reductions in Vietnam and the 20,000 reduction in Korea, the President indicated the following in his recent foreign policy report: "Elsewhere in Asia we cut back our forces to reflect our declining involvement in Vietnam and the increased capabilities of our allies. Troop reductions and base consolidations by this July will lower the U.S. presence by some 12,000 in Japan, 5,000 in Okinawa, 16,000 in Thailand, and 9,000 in the Philippines."

Mr. PASSMAN. What plans are now being developed for future U.S. troop withdrawal in this area?

General WARREN. In keeping with the Nixon Doctrine we will continuously evaluate the requirement for U.S. deployments in light of the threats and the ability of our allies to assume an increasing share of the responsibility for their defense.

COMMUNIST INSURGENCY MOVEMENTS

Mr. PASSMAN. How serious is the Communist-inspired insurgency movement in Burma, Malaysia. Indonesia and the Philippines?

General WARREN. With respect to Burma——

———

Malaysia

The Communist-inspired movement in Malaysia poses a serious potential threat in both West and East Malaysia, but most particularly by the Communist Terrorist Organization (CTO) in West Malaysia.

———

It is based in southern Thailand from which incursions are made into Malaysian territory across the Thai-Malay border.

———

———.

The threat to internal security from the CTO and SCO is presently under control due to the fairly effective security forces ———.

With respect to Indonesia, that country's stability is not presently threatened by Communist-inspired insurgency. The only active Communist insurgent movement in Indonesia is along the Sarawak/West Kalimantan border. ——— insurgents, mostly ethnic Chinese, primarily direct their efforts against the East Malaysian state of Sarawak. Periodic clashes with Indonesian military forces, however, do occur as a result of Indonesian Army counterinsurgency operations designed to eliminate the insurgent base areas and force them across the Sarawak border ———.

In the Philippines, Communist-inspired insurgency is presently controllable but the potential is high, given the country's deep-seated social and economic discontent. ———.

COUNTRIES WHERE U.S. TROOPS ARE BASED

Mr. PASSMAN. Would you please indicate which countries in the entire East Asia and Pacific region, no matter if they receive military assistance or not, have U.S. troops based within their borders?

General WARREN. We have major combat forces based in Korea, Japan, Okinawa, Philippines, Taiwan, Thailand, and South Vietnam. In some other East Asian countries we have small numbers of military personnel assigned to a variety of noncombat activities. For example, there are attachés, personnel performing military asistance-related activities, and technically oriented activities.

BURMA

Mr. PASSMAN. Why does Burma maintain a nonalined position with respect to her foreign policy?

General WARREN. Communist China which shares a 1,400 mile border with Burma has always been the key factor in the determination of Burmese foreign policy and the GUB has adhered to a position of nonalinement largely because it has believed that policy provides Burma with the best chance of maintaining its independence of this powerful neighbor. The Burmese have not altered this basic analysis of their situation even though since 1967 Communist China has increased its support for Communist rebels within Burma. This rebel activity does not threaten the stability of the Burmese Government and the Burmese leaders realize that the Chinese are

capable of a much greater effort in Burma. For this reason the Burmese Government does not wish to do anything that could possibly provoke Peking and result in more difficult security problems within Burma. In addition to maintaining its nonalined position, the Burmese Government during the past 2 years have made efforts to improve its relations with China and it has had some success. Rangoon and Peking have recently exchanged ambassadors for the first time since 1967 and for over 6 months the Chinese have refrained from broadcasts denouncing the Burmese Government.

Mr. PASSMAN. ——— or is she trying to stop it at all?

General WARREN. ———.

Mr. PASSMAN. I notice that ———

General WARREN. ———.

REGIONAL COSTS

Mr. PASSMAN. You list $76,000 for "Regional Costs" in fiscal year 1972. Would you please tell the committee what these costs include?

General WARREN. The $76,000 for "Regional Costs" is to support the personnel of subordinate military commands who administer the training program in the East Asia area. Included are such costs as salaries, allowance, and temporary duty travel.

REDUCTION IN EAST ASIA REGIONAL COSTS

Mr. PASSMAN. How were you able to reduce these costs from $590,000 in fiscal year 1970 to $76,000 in fiscal year 1972?

General WARREN. In fiscal year 1970, $500,000 of the $590,000 was for requirements financed with MAP reimbursements generated from the disposal sale of MAP excess materiel in the East Asia area. Since fiscal year 1970, such requirements have been reflected in appropriate country programs without regard to the geographical source of MAP reimbursements. The remaining $90,000 was for civilian salaries, allowances, and temporary duty travel of U.S. personnel in Pacific commands who administer the East Asia training program. This has been reduced to $76,000 for fiscal year 1972.

CAMBODIA

Mr. PASSMAN. The first country with a material program is Cambodia, for which the fiscal year 1972 estimate is ——— which is an ——— the fiscal year 1971 program.

Is it not true that the funds requested for Cambodia are needed to further the Vietnamization program?

General WARREN. There is a close relationship. The funds are essential if the Khmer forces are to continue to resist NVA/VC aggression. Such resistance ties down large numbers of NVA/VC forces which could otherwise be deployed to South Vietnam.

WITHDRAWAL OF U.S. FORCES

Mr. PASSMAN. Hopefully these funds will allow the United States to withdraw its troops at a faster rate, is that correct?

General WARREN. It is expected that these funds will enable the Khmer forces to improve their ability to resist NVA/VC forces. The current and projected capability of the Khmer forces represent one factor which may be considered in determining the rate of withdrawal of U.S. Forces from Southeast Asia.

UTILIZATION OF MAP EQUIPMENT BY CAMBODIAN FORCES

Mr. PASSMAN. The MAP program to Cambodia was resumed last Spring at a level of $8,900,000 and in fiscal year 1972 you estimate a program of ———.

This is a large jump, do you feel the Cambodian forces can effectively use this large amount of military assistance?

General WARREN. While large in comparison to military assistance for countries not at war, the ——— will provide only a moderate level of support considering that the Khmer Republic is expected to have a force of over 200,000 men engaged in active hostilities. Over 70 percent of the materiel consists of ammunition and spare parts. The new end items consist of motor vehicles and relatively light, unsophisticated military items. The projected delivery of these items will be geared to the anticipated capabilities of the Khmer forces. Subject to the uncertainties inherent in any combat situation, it is believed that the armed forces of the Khmer Republic need and can use effectively all of the military assistance requested for fiscal year 1972.

QUALIFIED GKR PERSONNEL

Mr. PASSMAN. I realize most of the funds are to be used to provide ammunition and rifles but some aircraft and ships will also be provided. Do they have qualified people to fly these planes and pilot the ships and probably most important to keep the equipment in working condition?

General WARREN. The Khmer forces have a small cadre of fairly well qualified personnel but they do not presently have enough to support adequately all the items in the fiscal year 1972 program. However, extensive training is taking place and it is anticipated that enough skilled personnel will be available to operate and maintain the relatively unsophisticated aircraft and small craft by the time they are received.

Mr. PASSMAN. Do you feel the Cambodian armed forces can stop the Communist aggression?

General WARREN. One heartening aspect of the war in Cambodia is the cooperation which has developed between the South Vietnamese and the Cambodians. With ARVN and other support, the Cambodian armed forces have been able to generally maintain control of the area which they held prior to the dry season. The effectiveness of the Cambodian armed forces has increased from a rather low beginning in March 1970 to the point where they played an important part in clearing Route 4 in January this year and are currently holding their own in several areas of the country.

With continued U.S. MAP support and South Vietnamese combat support, I feel that the Cambodians will generally be able to prevent further Communist gains. Much, however, depends on where in Southeast Asia the Communists concentrate their efforts.

EXTERNAL MILITARY SUPPORT FOR CAMBODIA

Mr. PASSMAN. You state in your justifications that Cambodia will only need limited external military support if the funds for MAP are provided. Who will provide this external support and what type of support will be provided?

General WARREN. As the President stated in his report to the Congress on February 25, 1971, "The South Vietnamese, at Cambodia's request, continued to sweep the sanctuary areas, conduct ground operations in support of Cambodian forces, and provide air and logistic support and training." As the forces of the Khmer Republic improve it is anticipated that there will be a gradual reduction in the need for direct South Vietnamese military support of the Khmer Republic.

DIRECTOR OF MAP-CAMBODIA

Mr. PASSMAN. Who is directing the field administration of the MAP program in Cambodia?

General WARREN. A U.S. Military Equipment Delivery Team was established on 31 January 1971 to supervise and audit the delivery of MAP equipment to Cambodia. The Chief of the MEDT directs the field administration of the MAP program in Cambodia under the supervision of the U.S. Ambassador to that country.

Mr. PASSMAN. Does the U.S. have advisers in Cambodia to direct the MAP training program?

General WARREN. No. The U.S. does not have training advisors in Cambodia.

U.S. MILITARY PERSONNEL IN CAMBODIA

Mr. PASSMAN. Do we have any U.S. personnel in Cambodia at this time?

General WARREN. Yes, a forward element of 16 personnel from the Military Equipment Delivery Team is located in Phnom Penh.

EXCESS DEFENSE ARTICLES FOR CAMBODIA

Mr. PASSMAN. I note you plan to provide ——— in excess equipment to Cambodia in addition to the regular MAP program request. What type of defense articles will be supplied?

General WARREN. The current best estimate of types of excess articles which will become available to meet Cambodia's requirements in fiscal year 1972 include motor vehicles, machineguns, mortars, ordnance equipment, and miscellaneous other supplies.

FUTURE MAP FOR CAMBODIA

Mr. PASSMAN. I notice in the force data table that Cambodia units in being are ———. I assume that the MAP program will be needed in future years to help supply ———. Do you have any estimates on future year MAP program levels?

General WARREN. We do not yet have estimates beyond fiscal year 1972. The recently organized Military Equipment Delivery Team (MEDT) has been requested to prepare such estimates. However,

the MEDT is giving first priority to providing supplies to Khmer forces engaged in combat and it is not certain when the MEDT will be able to submit meaningful estimates for beyond fiscal year 1972.

Mr. PASSMAN. Does anyone else provide military assistance to Cambodia?

General WARREN. The South Vietnamese have provided substantial military assistance to Cambodia in the form of combat support and captured enemy equipment. There are currently approximately 20,000 ARVN in Cambodia committed against Communist forces which pose a threat to both countries. Several other countries such as Indonesia, Australia, New Zealand, and Thialand have provided diplomatic support to the Government of the Khmer Republic. ———.

REPUBLIC OF CHINA

Mr. PASSMAN. The next country in the East Asia region is the Republic of China for which ——— is estimated for the fiscal year 1972 program, a ——— the current year.

Do you feel the budget request for the Republic of China, our staunch ally and whose defense capability is vital to the national interests of the United States, is adequate for her to increase her defense capabilities?

General WARREN. The Republic of China is well on the way to self-sufficiency in providing its own defense needs and grant MAP has been steadily reduced as requirements are increasingly met from that nation's own resources and from cash and credit purchases from the United States.

ARMED FORCES MAINTENANCE AND REPAIR CAPABILITIES

Mr. PASSMAN. Is it not true that the Nationalist China Armed Forces are extremely capable of maintaining and repairing the equipment allocated to them and therefore are able to make use of all the equipment made available?

General WARREN. Yes. The Republic of China Armed Forces capability in maintenance and repair, fostered by the military assistance program, has made it possible to utilize select long supply and excess to support and upgrade their armed forces.

GRC ARMED FORCES MODERNIZATION

Mr. PASSMAN. It is stated in the presentation that the U.S. ———

General WARREN. Improvement in mobility, firepower, communications and air defense should permit reduction in the Armed Forces, primarily the Army. Output of vehicles, small arms, communications equipment and helicopters from existing coproduction arrangements; provision of equipment through grant aid and excess defense articles; and acquisition of materiel through cash and credit sales have contributed substantially to the modernization of GRC's Armed Forces.

Mr. PASSMAN. Is it not true that a lot of equipment on hand in Nationlist China is obsolete or will be obsolete in the near future?

General WARREN. Yes, some equipment is obsolete. However, it is being replaced through coproduction, grant aid, excess defense

articles, cash and credit sales and, in case of the Navy, loan and lease of vessels.

Mr. PASSMAN. It is indicated in the justifications that ——— out of the ——— estimated program for fiscal year 1972, which is about ——— percent will be allocated to investment in new equipment. What type of equipment will be provided?

General WARREN. We plan to provide under this category primarily communications equipment and ammunition.

GRC ARMED FORCES MODERNIZATION PACE

Mr. PASSMAN. It doesn't appear that we are modernizing the Republic of China armed forces at a rapid pace. Would you like to explain further?

General WARREN. The fiscal year 1972 MAP permits the continuation of investment programs to which the United States and the Republic of China attach a high priority.

REDUCTION IN NUMBER OF STUDENTS FOR CHINA

Mr. PASSMAN. Would you please explain the large reduction of from 379 students trained in fiscal year 1970 to only ——— proposed to be trained in fiscal year 1972? You stated earlier that training had provided one of the greatest returns for dollars spent in the MAP program.

General WARREN. There is a reduction of students in China program between fiscal year 1970 and fiscal year 1972 as the result of increased self-sufficiency within the Chinese military school system. The Army and Air Force has reached a point where they can accomplish the majority of required training, except in the areas of communications, missile and aviation. In addition, the fiscal year 1970 program reflected a special overseas orientation tour for 104 pilots which was at no cost to MAP.

BUDGET SUPPORT

Mr. PASSMAN. Would you please explain the U.S. budget support item listed in the economic data table in which the following amounts are shown: Coming year 1968 ———, coming year 1969 ———, coming year 1970 estimate ———.

General WARREN. U.S. military budget support represents local currency generated by U.S. grants and loans of current or preceding years which are made available to the countries as a contribution to their military budgets. These funds are commingled with funds coming from their own resources and are not earmarked for any particular item.

ALLOCATIONS FOR AIRCRAFT

Mr. PASSMAN. You indicate that in fiscal year 1971, $2,445,000 was allocated for aircraft but you only show that ——— plane was provided and in fiscal year 1972 you propose a ——— allocation but indicate only ——— aircraft will be provided. Are these planes that expensive or does some of the allocation go for spare parts?

General WARREN. The allocation is for aircraft modification, aircraft ground handling equipment, and spare parts. The actual aircraft ——— are being provided from excess defense stocks at no cost to MAP appropriated funds.

FISCAL YEAR 1972 EXCESS DEFENSE ARTICLES FOR GRC

Mr. PASSMAN. In addition to the regular MAP request, I see you plan to provide ——— in excess defense articles to the Republic of China. What type of equipment will be supplied from this excess program?

General WARREN. In fiscal year 1972 we plan to provide such excess defense articles as ———.

EXCESS EQUIPMENT PROVIDED GRC IN FISCAL YEARS 1970 AND 1971

Mr. PASSMAN. I note from your justifications, that the excess equipment program as estimated last year for fiscal years 1970 and 1971 for the Republic of China has been greatly increased according to this year's presentation. Would you please tell the committee what amounts were estimated to be programed last year for fiscal years 1970 and 1971 and what the present allocation is for these 2 years? Please use the same equipment value so a valid comparison can be made.

General WARREN. Using legal value as a basis for comparison, in last year's presentation document we estimated $48 million and $0.1 million for fiscal years 1970 and 1971, respectively. Allocations in this year's presentation are $63.6 million for fiscal year 1970 and $20.7 million for fiscal year 1971. Individual country justifications last year reflected only a portion—38.3 percent for fiscal year 1970 and 8.6 percent for fiscal year 1971—of the total amount of excess equipment projected to become available worldwide for these 2 years. Subsequent allocations of additional excess equipment to the Republic of China for fiscal years 1970 and 1971 accounts for the differences between last year's and this year's presentation documents.

INDONESIA

Mr. PASSMAN. The next country we turn to is Indonesia, for which ——— is estimated for the fiscal year 1972 program, an ——— the current fiscal year 1971 program.

INTERNAL SUBVERSION—INDONESIA

Mr. PASSMAN. What internal subversion presently threatens Indonesia?

General WARREN. The present principal internal subversive threat to Indonesia is posed by remnants of the outlawed Indonesian Communist Party, but its attempts to regain its former position in the country's power structure have been a dismal failure. It is beset by factionalism, the relentless surveillance and pressure exerted by the Government, and the difficulty of replacing the many leaders killed or apprehended after the abortive Communist coup in October 1965.

——— Communist insurgents in west Kalimantan and the separatist movement in west Iran pose a threat to the Government but the military is capable of coping with them. The small radical Muslim element would welcome the opportunity to turn Indonesia into an Islamic state ———.

Mr. PASSMAN. Does Indonesia have the problem of large armed forces waging war within the country as does other Southeast Asian countries?

General WARREN. An insurgency exists in the extremely rugged mountain areas of Kalimantan (Borneo) conducted by Communist dissidents of Chinese ethnic origin. Containment of that insurgency requires the stationing of significant numbers of Federal troops in the area. Scattered incidents of dissidence occur elsewhere in the country.

U.S. PERSONNEL PRESENT IN INDONESIA

Mr. PASSMAN. How many American personel are presently located in Indonesia? Please treat the military personel separately.

General WARREN. There are at present approximately 215 U.S. Government personnel in Indonesia, of which 61 are military personnel to include attachés and the defense liaison group.

CAPABILITY OF ARMED FORCES

Mr. PASSMAN. Do you feel Indonesian Armed Forces are capable of maintaining internal security?

General WARREN. At the present time, yes. However, maintenance of this capability requires modernization of the Armed Forces, particularly in such areas as communications, transport—both ground and air—and selected combat items such as rifles.

INVESTMENT EQUIPMENT FOR INDONESIA

Mr. PASSMAN. I note that ——— percent of the fiscal year 1972 allocation to Indonesia will be used for investment in new equipment. What type of equipment will be provided?

General WARREN. Investment equipment planned for fiscal year 1972 includes ———.

Mr. PASSMAN. I assume this large allocation to new equipment is because Indonesia had none of this equipment on hand?

General WARREN. Some of this type of equipment was supplied under provious programs. The equipment we plan to provide in fiscal year 1972 is required to enhance their capability to maintain internal security, to upgrade communications necessary for command and control, and to improve maintenance and logistics facilities.

MAINTENANCE OF EQUIPMENT IN INDONESIA

Mr. PASSMAN. Does the Indonesian Armed Forces have enough qualified personnel on hand to keep this equipment operational?

General WARREN. Yes. A pool of technically trained personnel, supported by a moderate training base, is available in all services to keep this equipment operational. The proposed program will continue to

provide materiel and training for improvement of the logistics and maintenance facilities.

INDONESIA FORCE STRUCTURE

Mr. PASSMAN. ———.

General WARREN. ———.

REDUCTION IN NUMBER OF STUDENTS FOR INDONESIA

Mr. PASSMAN. Again I notice you have reduced the number of trainees to be trained in fiscal year 1972 substantially below the fiscal year 1970 level. It would seem with the delivery of all this new equipment there would be an increased requirement for training qualified individuals to operate and maintain it. Would you please comment?

General WARREN. The reduction in number of trainees between fiscal year 1970–72 is due to 94 Indoesian ship crew personnel involved in the transfer of an LST in fiscal year 1970. No ship transfer requirement is programed in fiscal year 1972.

PERCENT OF GNP FOR DEFENSE

Mr. PASSMAN. You indicate that Indonesia will spend about 3.7 percent of its GNP on defense in calendar year 1970. Doesn't this appear to be a little low when I believe the United States is presently spending about 7 percent of its GNP on defense?

General WARREN. As you are aware, the overall Indonesian economic situation was quite unbalanced in past years and the per capita GNP very low. The present government has initiated policies to deal with this problem and is directing available resources to the greatest extent possible into high priority development efforts which will improve the economic situation over the long term. Such an allocation of resources is necessary if the country is to attain economic stability and future growth.

AIRCRAFT FOR INDONESIA

Mr. PASSMAN. I note that the ——— aircraft programed in fiscal year 1970 will not be delivered until some time after ———. Why does it take so long to deliver these aircraft?

General WARREN. These ——— were actually delivered in January 1971. Production lead time for ——— aircraft is 1 year.

REPUBLIC OF KOREA

Mr. PASSMAN. The next country in the East Asia region is Korea, for which ——— is estimated to be allocated in fiscal year 1972, a ——— the current fiscal year.

This is the second increment in the scheduled 5-year modernization program for Korea. What will the total 5-year program cost the United States in military assistance funds?

General WARREN. It is estimated that the total cost of the Korea 5-year modernization program will be approximately ———.

U.S. TROOP REDUCTIONS

Mr. PASSMAN. At the end of the 5-year modernization program, will the United States be able to withdraw all her troops from Korea?

General WARREN. We have no plans at this time for a further reduction of U.S. troop strength in Korea. In keeping with the Nixon Doctrine, however, we will continuously evaluate the requirement for U.S. force deployments in light of the ability of our allies to assume more responsibility for their defense. The capabilities of the Korean Armed Forces will of course be an essential element in the evaluation of U.S. deployments in Korea.

Mr. PASSMAN. How many U.S. troops are stationed in Korea?

General WARREN. As of 28 February 1971, there were a total of ——— personnel assigned in Korea.

Mr. PASSMAN. Will the proposed withdrawal of 20,000 U.S. troops still be completed by the end of fiscal year 1971?

General WARREN. Yes, sir; it will.

DEFENSE CAPABILITIES OF KOREA

Mr. PASSMAN. Do you feel that Korea will be able to defend itself adequately when the U.S. troops are withdrawn? Since Korea is a forward defense country, this is a very important consideration.

General WARREN. Yes, sir. Our reduction of 20,000 was carefully evaluated against the defense requirements of Korea in view of the threat existing to her security. The United States of course will meet her obligations to the defense of Korea under our Mutual Defense Treaty.

KOREA CAPABILITY TO ABSORB NEW EQUIPMENT

Mr. PASSMAN. Since ——— percent of the fiscal year 1972 allocation is proposed to be used for investment in new equipment, do you feel qualified personnel are present in the Korean armed forces to effectively utilize and maintain this equipment?

General WARREN. As currently planned, personnel qualified to utilize and maintain this additional equipment will be on hand by the time the material is ready for delivery.

FISCAL YEAR 1972 MAP TRAINING

Mr. PASSMAN. What type of training is scheduled to be provided in fiscal year 1972?

General WARREN. The fiscal year 1972 program continues needed technical, leadership, and professional courses as in prior years. Emphasis will be on higher level professional and resources management training which contributes toward the capability for increased self-sufficiency of the recipient country.

HARDENING AIRFIELDS

Mr. PASSMAN. Has South Korea been successful in hardening their airfields?

General WARREN. The United States has built ——— aircraft shelters in Korea which meet appropriate protection criteria. These are pri-

marily for use by U.S. aircraft, however, the United States now has ——— tactical fighter aircraft in Korea. The Republic of Korea has constructed approximately ——— hardened aircraft shelters and has realistic plans for development a total of ——— shelters. However, while these actions are beneficial in protection of aircraft against North Korean attack, they do not yet constitute a complete airfield hardening program.

Mr. PASSMAN. What have been the number of incidents along the DMZ this past year?

General WARREN. During calendar year 1970 there were 71 incidents along the DMZ.

U.S. SUPPORT OF KOREAN TROOPS IN VIETNAM

Mr. PASSMAN. In terms of dollars, how much and what type of support does the United States provide the Republic of Korea for deployment of her troops in Vietnam?

General WARREN. Our estimate of USG support of Korean forces in Vietnam for fiscal year 1971 in dollars and by type is shown below:

Military personnel	103.8
Operations and maintenance	55.1
Procurement	62.7
Total	221.6

TROOP LEVELS

Mr. PASSMAN. I notice that South Korean Army troop levels have dropped ——— below last year's level. Would you please explain this decrease when it would appear that an increase in troop levels would be in order since the United States is withdrawing troops?

General WARREN. Last year's document was in error in that the marine strength, approximately ——— was included in both Army and Navy total strengths. The strengths shown this year are correct and there has been no significant change since last year.

PERCENT OF GNP FOR DEFENSE

Mr. PASSMAN. Along this same line, why would the defense expenditures as a percent of GNP drop from 4.1 percent in calendar year 1969 to 3.9 percent in calendar year 1970?

General WARREN. I believe this results from the fact that although Defense expenditures rose by some $55 million, the GNP simply rose at a more rapid pace resulting in the lower percentage figure. We are engaged in discussions with the Korean Government as to ways of increasing the ROK budgetary contribution to their defense effort.

BUDGET SUPPORT

Mr. PASSMAN. Would you please explain the $66 million U.S. budget support item estimated for calendar year 1970 for Korea?

General WARREN. U.S. budget support represents local currency generated by U.S. grants and loans of current or preceding years which are made available to the countries as a contribution to their military budgets. These funds are commingled with funds from their own resources and are not earmarked for any particular item.

TYPES OF MAJOR EQUIPMENT FOR KOREA

Mr. PASSMAN. What type of major equipment is going to be provided to Korea in fiscal year 1972 by the MAP program?

General WARREN. The types of major equipment items planned for Korea in the fiscal year 1972 program include ———.

KOREA MODERNIZATION PROGRAM

Mr. PASSMAN. Which area of the Korean Armed Forces is in need of the major portion of U.S. modernization efforts?

General WARREN. Our objective is to achieve a balanced modernization of all MAP supported forces in Korea. The cost of modernizing the ROK Army will probably exceed that of the other branches since the Army represents the largest component of the Korean Armed Forces.

EXCESS DEFENSE ARTICLES FOR KOREA

Mr. PASSMAN. I see you propose to substantially increase your excess equipment program for Korea from $15 million in fiscal year 1971 to ——— in fiscal year 1972. What type of equipment will be given to Korea?

General WARREN. The types of excess equipment planned for supply in fiscal year 1972 include ———.

HELICOPTERS FOR KOREA

Mr. PASSMAN. I note that ——— helicopters were programmed for Korea in fiscal year 1969 but they are not scheduled for delivery until some time after June 30, 1971. What is the delay in providing these helicopters?

General WARREN. These ——— helicopters were delivered to Korea during November and December 1970. This information became available subsequent to preparation of the Congressional Presentation Document.

PHILIPPINES

Mr. PASSMAN. The last country in the East Asia region is the Philippines, for which the fiscal year 1972 estimate is ——— the fiscal year 1971 program.

Has there been any incidents in the Philippines this past year protesting U.S. presence in that country or U.S. policies in Southeast Asia?

General WARREN. There have been no incidents of protests specifically against U.S. policies in SEA or the U.S. presence in the Philippines. There have, however, been occasional protests, primarily student, against the Marcos administration and, in some incidents, the issue of alleged American imperialism, including our base presence, has been raised.

SMUGGLING

Mr. PASSMAN. You state that MAP funds are provided to improve antismuggling capabilities of the Philippine Armed Forces. Is smuggling that big a problem in the Philippines?

General WARREN. Smugglers have traditionally been active in the southern Philippines. The Marcos administration has taken action to stem this practice in order to prevent loss of revenue to the Federal Government.

Mr. PASSMAN. What commodities are the major items smuggled?

General WARREN. In recent years they have been primarily high-value, low-bulk items such as gold, cigarettes, jewelry, electronic equipment, and appliances.

PHILIPPINE PERSONNEL IN VIETNAM

Mr. PASSMAN. At the present time, do the Philippines have personnel in South Vietnam?

General WARREN. Yes. A small detachment of medical, logistic, and administrative personnel totaling approximately 130 men.

Mr. PASSMAN. If so, does the United States provide support for these personnel?

General WARREN. We no longer have funds in the DOD budget for support of the Philippine forces as we did when the PHILCAG was deployed in Vietnam.

PERCENT OF GNP FOR DEFENSE

Mr. PASSMAN. Again I notice defense expenditures as a percent of GNP are declining from 1.7 percent in calendar year 1969 to 1.4 percent in calendar year 1970. Since GNP is on the increase; it seems the Philippine Government would at least keep the percentage of defense expenditures constant. Would you please comment?

General WARREN. Since 1969, the Philippines has suffered from a severe balance-of-payments problem, and in early 1970 it became necessary for the Government to negotiate a standby agreement with the International Monetary Fund. In the past year, good progress has been made toward achieving financial stability; however, many categories of Government spending and classes of imports have had to be curtailed significantly in order to make this possible.

FISCAL YEAR 1972 PROGRAM FOR NEAR EAST AND SOUTH ASIA

Mr. PASSMAN. As I presently see the situation, we are providing India and Pakistan only training in the fiscal year 1972 MAP program. What type of training do we provide?

General WARREN. The type of training provided to India and Pakistan is primarily in the professional area; that is, command and general staff officer course, engineer, field artillery, infantry, armor officer advanced courses, naval command course, and defense management course.

INDIA AND PAKISTAN

Mr. PASSMAN. Is it not true that the United States suspended the military assistance program grants to India and Pakistan in 1965 because of hostilities between the two nations?

General WARREN. These grants were suspended to both countries as a result of the 22-day war in 1965. They were terminated finally

under the provisions of the April 1967 enunciation of a revision of the military supply policy. A modest program of Conus training was revived under the terms of that policy revision.

SOURCES OF EQUIPMENT ACQUIRED BY INDIA AND PAKISTAN

Mr. PASSMAN. Is it also not true that India and Pakistan are now receiving arms and military equipment from the Soviet Union and Communist China?

General WARREN. India has purchased a broad range of military equipment from the U.S.S.R. beginning about the time of the Chinese incursion across the Himalayas in 1962. The program reached its peak just after the war with Pakistan in 1965 and has tapered off to a large extent in the last few years as India drives toward self-sufficiency in the military sphere. India has never received arms from China. Pakistan began receiving comparatively large amounts of hardware (tanks, jet fighters and bombers, artillery and a variety of small arms) from China following the 1965 war. While hard information is lacking, it appears that most of this gear was provided essentially on a grant basis. More recently, Pakistan has purchased significant though not inordinately large quantities of tanks and artillery from the U.S.S.R. As far as is known, only a minor portion of the total placed on order has been delivered.

MIG PLANTS IN INDIA

Mr. PASSMAN. If I am not mistaken, India has several MIG assembly plants in operation at the present time, is that correct?

General WARREN. Part of the Soviet credit has been devoted to the construction of a three-factory complex for the production of MIG–21 interceptors. (The main plant near Bombay produces airframes, currently with an estimated 75 percent indigenous content, and completes final assembly of the planes. An engine plant near India's east coast and an electronics/avionics factory at Hyderabad are operational but have not reached as high a level of domestic content in their respective outputs.)

COUNTRIES WILL OBTAIN EQUIPMENT FROM OTHER SOURCES

Mr. PASSMAN. Doesn't this point to the fact that these countries will obtain military arms and equipment no matter what action the United States will take?

General WARREN. Both India and Pakistan believe it essential to maintain and modernize their respective military forces in response to the perceived threats. India is concerned primarily over China's power along the Himalayan rimland, but it sees an additional threat of Pakistani collusion with China in some future effort against Indian soil. Pakistan is concerned only about India's four-to-one military advantage. In view of these perceptions, each will take the steps it believes necessary to assure it security irrespective of the source of supply. In fact, however, India is steadily and measurably reducing its dependence on overseas suppliers, substituting domestic production in all but the most sophisticated hardware areas. Pakistan, which

has only a very limited military industrial base, will perforce continue to depend almost entirely on outside suppliers.

Mr. PASSMAN. Before the United States suspended it military assistance to these two countries, did they purchase arms from the Communist countries and if so in what amounts as compared to now?

General WARREN. As I stated earlier, India began acquiring military hardware from the U.S.S.R. at about the same time that we undertook our grant aid program, that is, after the Chinese incursion in 1962. New Delhi began by purchasing a limited number of MIG's, partially due to our unwillingness to provide armed aircraft of a similar capability. Pakistan received no communist supplied equipment prior to the suspension.

Mr. PASSMAN. We have more or less forced India and Pakistan to deal with the Communists. Another point to make is that the United States is now and has in the past provided large amounts of economic assistance to India and Pakistan. Would it not be true that this U.S. aid would allow these countries to release some of their own resources to purchase military equipment?

General WARREN. I cannot argue with the logic of the assertion that our assistance may have freed assets for military acquisition. However, most analysts of the area seem to agree that in the absence of our aid, both India and Pakistan would have diverted funds in almost as large amounts from development to defense. In other words, economic improvement would simply have gone wanting.

Mr. PASSMAN. I believe perhaps we should increase our military sales program to these countries and have them spend some of the U.S. aid dollars in the United States, do you agree?

General WARREN. There are two basic policy matters involved in this question, one applicable worldwide and one relating only to the area of South Asia. The first question is whether the U.S. Government should encourage or require those countries receiving economic assistance from us to make their military purchases in the United States. We believe that we should discourage unnecessary military expenditures in the developing countries, both to reduce undesirable misuse of scarce economic resources and to hold down regional arms races. Where it is obvious that the country in question is determined to purchase certain military equipment regardless of whether we believe it is needed or not and in spite of the diversion of resources from economic development, we would then encourage purchase of U.S. equipment where it is equally or more suitable than items from other countries and where the impact on economic development is in the same range. With regard to our policy on arms sales to India and Pakistan, we are confronted with a special area problem. After the 1965 war between these two countries the U.S. Government imposed an embargo on the sale of lethal end-items to both countries. We continued to sell spare parts for previously supplied U.S. equipment and certain nonlethal end items such as trainer and transport aircraft, trucks and jeeps, and communications equipment. In October 1970, the U.S. Government decided to make a one-time exception to this policy to permit the sale of certain items to Pakistan. None of these items have been delivered and, as a result of the fighting which erupted on March 25, in East Pakistan, we have our overall arms supply policy for South Asia under close and continuing review.

IRAN

Mr. PASSMAN. You indicated the United States has important security interest in Iran. Would you please tell the committee what these security interests are?

General WARREN. In the first place, Iran is located in an area of great importance to the free world, the Persian Gulf area. With the withdrawal of British forces from this area, we are looking toward the Gulf riparian states to ensure peace and stability. Iran will certainly be a major participant in this effort.

CLASSIFICATION OF ARAB STATES

Mr. PASSMAN. You also state ———. Please identify the moderate Arab regimes and the radical Arab States for the record.

General WARREN. The term "moderate Arab States" is generally used, with respect to the Middle East, to refer to Jordan, Lebanon, and Saudi Arabia. The term "radical Arab States" is much more difficult to define precisely because of the shifting character of Middle Eastern politics. It has been used at one time or another to bracket Syria, the United Arab Republic (Egypt), Iraq, the People's Republic of South Yemen, and Yemen, among the Middle Eastern States. It should be noted that there have been obvious differences in the degree of radicalism among these States at any particular time and in any one State over an extended period of time. The term may therefore not be fully justified for all the countries specified at present.

GREECE

Mr. PASSMAN. The justifications state that Greece offers the United States ———. Why do you use the words "comparatively unrestricted"?

General WARREN. Greece makes available to the United States important air, naval and communications facilities. However, under certain procedures we do need to comply with Greek clearance requirements for visits and aircraft overflight and landings.

Mr. PASSMAN. Is feeling building up against the United States in this country?

General WARREN. On the basis of my recent visit to Athens, I am inclined to say "No."

TERMINATION OF GRANT AID TO GREECE AND TURKEY

Mr. PASSMAN. You state that U.S. planning guidance for Greece and Turkey calls for gradual transitions from MAP grant aid to credit sales purchases when the economic situations in the two countries permit. Do you have any estimates when it might be possible to completely terminate grant military aid to these countries? Greece has been programed for credit sales for the last 3 or 4 years but Turkey has not yet started.

General WARREN. No, it would be impossible to estimate when we might be able to terminate completely grant aid to these two important allies. We desire to move toward this end, however, and have agreed in principle that as the economies of Greece and Turkey improve, a gradual transition from grant to sales would be in order, as is our policy worldwide. We have no established timetable but do examine the situation periodically.

FUNCTIONAL BREAKOUT OF FISCAL YEAR 1972 PROGRAM

Mr. PASSMAN. Would you furnish for the record a table showing the percentages and the amount of the $167 million which is planned to be programed for NESA in fiscal year 1972 for operation, investment, and training?

General WARREN. Yes, I will provide the table. (The information follows:)

NEAR EAST AND SOUTH ASIA

[Dollars in thousands]

Programed	Program value	Percent
Operating	73,742	44
Investment	86,885	52
Training	6,373	4
Total	167,000	100

MISSION SUPPORT TO IRAN

Mr. PASSMAN. In fiscal year 1972, you indicate military assistance to Iran will consist of MAP training and mission support. Would you please explain the mission support item?

General WARREN. The term "mission support" refers to the cost of operating the Iranian MAAG. Both the defense appropriation and the military assistance appropriation support MAAG operations.

The defense appropriation bill covers the pay and allowances and PCS of military personnel assigned to the MAAG, their welfare and recreational activities, dependent schooling, and 50 percent of the costs of operating MAAG aircraft.

The military assistance appropriation covers (1) pay and allowances of U.S. civilian personnel; (2) change of station travel costs for U.S. civilian personnel and dependents; (3) temporary duty travel of both civilian and military personnel; (4) rents, communications, and utilities; (5) printing and reproduction; (6) payment of salaries for local indigenous personnel required to support MAP overseas activities; (7) supplies and materials; (8) equipment required in MAP administrative duties; (9) other contractual services; (10) one-half of MAAG aircraft support costs; and (11) shared support (common services provided by the U.S. State Department).

AMOUNT ALLOCATED TO EACH COUNTRY

Mr. PASSMAN. What percent of the total allocation for the Near East and South Asia region in fiscal year 1972 will go to each of the three material and training countries?

General WARREN. The total allocation of the Near East and South Asia material and training countries is Greece ——— Jordan ——— and Turkey ———.

JORDAN

Mr. PASSMAN. The justifications state that Jordan can contribute to a peaceful settlement in the Near East. Would you please explain how this small, financially troubled nation can contribute to peace in this area?

General WARREN. Jordan's army has in recent months neutralized the Palestinian fedayeen movement in that country and in so doing has greatly diminished the capability of the Palestinians to block a peace settlement—a capability they previously demonstrated with some effectiveness. Moreover, at least in part as the result of their defeat in the civil strife of September 1970, several fedayeen groups have toned down their opposition to a political settlement. Conversely, as President Nixon pointed out in his February 25, 1971 Report to the Congress, if Jordan had succumbed to either internal subversion or external aggression last fall, "the danger of another full-scale Middle Eastern war would have been at hand." Jordan therefore contributes significantly to the framework of Middle Eastern security.

COUNTRY BREAKDOWN OF DOLLARS FOR NESA FISCAL YEAR 1972 TRAINING-ONLY COUNTRIES

Mr. PASSMAN. Would you please provide a breakdown by country of the $881,000 programed for training in fiscal year 1972 for the five U.S. training-only countries?

General WARREN. The following is a breakdown, by country, of the $881,000 programed for training in fiscal year 1972 for the five U.S. training-only countries in the NESA area:

Country	*Dollars (in thousands)*
Afghanistan	———
India	———
Lebanon	———
Nepal	———
Pakistan	———
Total	———

LEBANON

Mr. PASSMAN. Testimony in the fiscal year 1971 supplemental hearings indicated that the type of equipment requested for Lebanon would be determined in consultation later with that government. Could you tell the committee what equipment will be delivered to Lebanon based on the $5 million supplemental appropriation?

General WARREN. The consultations are not yet completed but it appears that the most likely equipment to be provided Lebanon will be various vehicles, small arms, ammunition, and possibly some helicopters or small patrol boats.

Mr. PASSMAN. Was this a one-time request for military assistance funds for material because I notice Lebanon has now returned to the status of a U.S. training-only country?

General WARREN. Yes, grant assistance for Lebanon was a one-time request related principally to the upsurge in Palestinian guerrilla activity last summer.

GREECE

Mr. PASSMAN. The first country in this area is Greece, for which the fiscal year 1972 estimate is ——— the program level for fiscal year 1971.

The suspension of major equipment shipments has now been completely terminated, is that correct?

General WARREN. That is correct.

Mr. PASSMAN. The United States has been severely criticized because we resumed military assistance shipments to Greece before a democratic government was established. Would you please comment on this situation?

General WARREN. The lifting of the embargo was based on NATO and U.S. security considerations. I would judge that very few could criticize this action.

EFFECTIVENESS OF GREECE'S ARMED FORCES

Mr. PASSMAN. It has been said that the effectiveness of the Greek military has been reduced greatly because large numbers of experienced senior officers have been imprisoned and removed from the armed services. It is said that deep disaffection among the officer corps exists. What information do you have on the effectiveness of their Armed Forces?

General WARREN. The information I have indicates that the current Hellenic Armed Force compared with the precoup organization is better paid, better dressed and their health has improved because of better living conditions. I believe that some purging took place following the coup. However, some personnel were lost through normal retirements. I would say that any weakening effect of the purge is not discernible at the present time.

Mr. PASSMAN. If such a situation does exist in the ranks, do you feel Greece can effectively utilize the amount of military assistance we are providing?

General WARREN. As I have said that situation does not currently exist. Greece can effectively utilize the amount of military assistance we are providing.

IMPORTANT U.S. FACILITIES IN GREECE

Mr. PASSMAN. Would you please tell the committee what important air, naval, and communications facilities the United States has in Greece?

General WARREN. The important U.S. air, naval, and communications facilities in Greece are the following: Athenai Air Base, Athens; Iraklion Air Station, Crete; five Tropospheric Scatter Communications Stations; and the communications station at Nea Makri.

Mr. PASSMAN. It seems that the largest deficiency in the Greek ——— according to the force data table but I note you have not programed any of these items for delivery in the last 3 fiscal years. Would you please comment?

General WARREN. The problem here is that there are no suitable ———. We do have a program of cost-shared construction ——— with the Greeks and this seems to be the best solution to their long-term needs for this type of equipment.

SUPPLY OPERATIONS FOR GREECE

Mr. PASSMAN. According to your program sheet, $3,496,000 was allocated in fiscal year 1970 for supply operations and the proposal for fiscal year 1972 is ——— for the same item. Would you please explain this large increase?

General WARREN. This increase is the result of increases in transportation tariffs and increases in volume of deliveries. In 1970, deliveries to Greece were in a suspended status. This suspension was lifted in 1971 with delivery of suspended items to be made in 1971 and 1972. In addition, deliveries of excess defense articles at legal value are expected to increase from $17 million in 1970 up to ——— being proposed for fiscal year 1972.

EXCESS EQUIPMENT FOR GREECE

Mr. PASSMAN. The excess defense articles program is estimated to jump from $15,333,000 to ——— in fiscal year 1972. What major items make up the fiscal year 1972 amount?

General WARREN. The excess defense articles program planned for Greece in fiscal year 1972 include major items such ———.

JORDAN

Mr. PASSMAN. The next country in the NESA area is Jordan, for which ——— is estimated for fiscal year 1972, an ——— the fiscal year 1971 program.

How long has it been since the United States has had a major military asistance program to Jordan?

General WARREN. Our last year was 1967 for a sizable grant military assistance program to Jordan.

JORDAN'S DEFENSE CAPABILITIES

Mr. PASSMAN. Do you feel Jordan will be able to defend itself internally from the guerillas and at the same time resist external attacks from other Arab states?

General WARREN. Jordan has already—September 1970—demonstrated its ability to defend itself simultaneously against the Palestinian guerrillas and the Syrians (although the intervention of the latter was admittedly very limited, involving only a limited number of tanks over a short period of several days). The subsequent neutralization of the guerrilla forces in Jordan has, moreover, increased the Government's advantage. Nonetheless, Jordan would obviously face a severe threat if it were simultaneously attacked in force by Syria and Iraq while it still had to contend with guerrilla forces inside the country. Current U.S. arms assistance to Jordan is designed to minimize that threat.

JORDAN'S RELATIONSHIP WITH OTHER ARAB NATIONS

Mr. PASSMAN. What is Jordan's relationship with the rest of the Arab world?

General WARREN. Jordan's relations with the other Arab countries have improved considerably from the low point of September–

October 1970. This is obvious, for example, from the recent successful visit by Crown Prince Hassan to Damascus. Nonetheless, recurrent fighting between the Jordan Army and the fedayeen has had an adverse effect on relations with a number of Arab states. It has, for example, led to a suspension by Kuwait of its subsidy payments for the last several months and to a pronounced coolness between Jordan and the United Arab Republic.

JORDAN'S LAND SUBSIDIES

Mr. PASSMAN. You indicate Jordan has lost outside cash subsidies. Would you please tell us the amounts of these subsidies and who supplied them?

General WARREN. Prior to the September 1970 crisis Jordan received subsidies from Kuwait, Libya, and Saudi Arabia, totaling approximately $105 million annually. Following the crisis, Libya cut off its subsidy permanently and broke diplomatic relations with Jordan. Kuwait suspended monthly payments for October and November, made the December payment, and then again suspended subsequent monthly payments. Saudi Arabia has announced a policy of making only half of its payments in cash with the balance in oil. The net effect of these decreases has been to precipitate a serious financial crisis in Jordan.

ASSISTANCE PROVIDED BY THE UNITED KINGDOM TO JORDAN

Mr. PASSMAN. The statement is made in your presentation that U.S. aid has been able to complement the assistance provided by the United Kingdom. How much assistance is provided by the United Kingdom?

General WARREN. Overall United Kingdom aid to Jordan, consisting of various loans and grants, has totaled several millions of dollars in recent years—1967, $5.9 million; 1968, $3.5 million; 1969, $5.1 million. Over the period 1960–69, total United Kingdom assistance was $64.4 million.

STABILITY OF JORDAN'S GOVERNMENT

Mr. PASSMAN. In the Washington Post of October 29, 1970, it was stated that Jordan had just formed its third cabinet in 6 weeks. Just how stable is the Jordanian government at the present time?

General WARREN. The stability of the Jordanian Government does not depend in the last analysis on the survival of cabinets but on the survival of the regime, which rests on the twin pillars of the monarchy and the army. The formation of three successive governments during the September-October crisis of 1970 was mainly a reflection of policy shifts and the King's desire to install a military government during the crisis. As such, it does not represent any inherent instability. The third government referred to in the Post article has continued in office from October 1970 until the present.

USE OF FUNDS IN JORDAN

Mr. PASSMAN. Is it true that most of the MAP funds will be used to replace equipment lost in the September war?

General WARREN. Much of the program will be designed to replace losses suffered in the September fighting. ——— in recognition of the

stabilizing role that this moderate Arab regime can continue to play in the Middle East.

JORDAN'S LOSSES OF EQUIPMENT

Mr. PASSMAN. Just how extensive were Jordan's losses in this war?

General WARREN. Jordan's losses of equipment and ammunition during the September 1970 fighting were estimated by the U.S. Military Survey Team at something under $10 million. This does not include other losses of a nonmilitary character.

EXCESS EQUIPMENT FOR JORDAN

Mr. PASSMAN. Has the United States provided Jordan with excess equipment in past years?

General WARREN. We have provided about $4.2 million (legal value) of excess equipment to Jordan in past years. This includes items such as aircraft, artillery, tanks, and mortars.

TURKEY

Mr. PASSMAN. The last country in the NESA region is Turkey, for which the fiscal year 1972 estimate is ———, a ——— the current fiscal year.

Recently Turkey experienced a change in government as a result of unrest between the military and the regular Turkish Government. Do you believe this change will have any effect on the MAP program in the near future?

General WARREN. The new government, which it should be noted is assuming office in accordance with Turkey's constitutional procedures, includes members from three of the four major political parties. All of these have supported Turkey's membership in NATO in the past. Thus we do not anticipate any major change in Turkey's relationship with NATO or with the United States. Consequently, we do not expect the change of government to have any effect on our military assistance program for Turkey in the near future.

KIDNAPING OF U.S. PERSONNEL IN TURKEY

Mr. PASSMAN. What, if any, significance can be attached to the kidnaping of U.S. Armed Forces personnel in Turkey?

General WARREN. I do not believe we can place any special significance on the kidnaping of Armed Forces personnel in Turkey. So long as U.S. citizens—military or civilian—circulate as freely as they do in most countries of the world, opportunities exist for them to be kidnaped by terrorists who want to use them as hostages to coerce the United States or the host governments. In this recent incident, I believe we should note that the Turkish Government moved promptly and vigorously to bring about the men's safe release.

U.S. FACILITIES IN TURKEY

Mr. PASSMAN. What important U.S. facilities do we presently have in Turkey?

General WARREN. The major Turkish/United States common defense installations include the following U.S. activities: communications sites at Sinop, Karamursel, Belbasi (near Ankara), and Pirinclik (near Diyarkarir); an air base at Incirlik; an air station at Blgat (Ankara); the headqurters of the Joint U.S. Militry Mission for Aid to Turkey (JUSMMAT) at Ankara; there are also logistic support units, communications relay stations ——— at a number of locations throughout Turkey. In addition, there are two NATO Headquarters at Izmir: COMLANDSOUTHEAST and Sixth ATAF.

EFFECTIVENESS OF TURKISH ARMED SERVICES

Mr. PASSMAN. You indicate Turkey has the largest army and air force in the Middle East. This is all well and good but are these armed forces in a position to be an effective fighting force if needed?

General WARREN. The answer to that is "Yes" for several reasons. U.S. military assistance over the years has helped Turkey to reorganize and reequip its forces for modern warfare. NATO infrastructure funds have also assisted Turkey in constructing and improving military bases and facilities in those locations best suited to defend against potential enemy attacks. Additionally, two important NATO Headquarters, Land Forces Southeast and 6th Allied Tactical Air Force, are located in Turkey to ensure the prompt and smooth implementation of NATO's defense plans. These factors, together with the unquestioned fighting qualities of the Turkish soldier, indicate that Turkey indeed has an effective fighting force in being.

TYPE OF EQUIPMENT ON HAND IN TURKEY

Mr. PASSMAN. Is the equipment available to the Turkish forces modern and is it kept in operational condition?

General WARREN. The Army is being modernized and mechanized with the provision of ———. Turkish Air Force tactical units are partially equipped with modern jet fighters and, ———. The Turkish Navy has been provided with destroyers, submarines, patrol boats, minelayers, landing craft and minesweepers. ———. The equipment is being maintained in a satisfactory condition and should enable the Turks to fulfill their NATO commitment.

REDUCTION IN NUMBER OF STUDENTS FOR TURKEY

Mr. PASSMAN. It appears that the number of trainees has been reduced ——— from the fiscal year 1970 level. Would you please comment on this reduction when training is felt to be so beneficial?

General WARREN. The reduction in number of trainees between fiscal year 1970–fiscal year 1972 is due to 156 Turkish ship crew personnel involved in the transfer of two submarines in fiscal year 1970. No ship transfer requirement is programed in fiscal year 1972. Also, additional reduction in trainees is caused by the current Turkish foreign exchange problem. The shortage of dollars to pay their trainees has prevented Turkey from programing total fiscal year 1972 training requirements.

TURKISH NAVY REQUIREMENTS

Mr. PASSMAN. Again the Turkish Navy appears to need additional vessels in order for it to meet planned objectives. What is being done along this line?

General WARREN. While it is difficult to do much to meet the Turkish Navy's requirements within the funds which we are requesting, as the U.S. Navy deactivates ships we will look for ships from this source which might be provided to Turkey.

SHIP LOANS TO TURKEY

Mr. PASSMAN. Are the ——— being supplied out of the excess defense articles program in fiscal year 1972 and if so, what will the ——— be used for under the MAP item entitled "Ships"?

General WARREN. The ——— submarines are not part of the excess defense article program; they will be loaned to Turkey. Authority for the loan of two of these submarines is contained in Public Law 91–682; authority for the loan of ——— will be sought in a bill presently being prepared by the U.S. Navy. About ——— will be used for the repair and overhaul of these ——— submarines in the United States prior to transfer; the remainder will be used for overhaul of MAP provided ships in country, and ship spare parts.

REPLACEMENT OF AIRCRAFT

Mr. PASSMAN. Will the ——— aircraft programed for 1972 be used to replace less operable aircraft or to form additional air force units?

General WARREN. The ——— aircraft programed for 1972 are to replace older ——— aircraft now in the Turkish inventory. No additional units are planned.

EUROPE

Mr. PASSMAN. Would you furnish for the record a table showing the percentage and the amount of the $14,082,000 programed for Europe in fiscal year 1972 which will be allocated for operation, investment, and training?

General WARREN. Yes, I will provide the table.

(The information follows:)

EUROPE

[Dollars in thousands]

Programed	Dollars	Percent
Operations	2,107	15
Investment	10,558	75
Training	1,417	10
Total	14,082	100

SPAIN AND PORTUGAL

Mr. PASSMAN. You state that one of the principal goals is to replace grant programs by cash or credit sales as the economy of a country permits. In the case of Spain and Portugal, is this goal over-

shadowed by the fact the United States needs certain base rights in these countries?

General WARREN. Not at all. In the case of Spain, the grant aid program runs some ——— over the next 5 years—the sales package, however, is almost five times as much, ——— and may run higher if the Spanish choose to buy additional items. ———.

U.S. BASES IN SPAIN AND PORTUGAL

Mr. PASSMAN. What U.S. bases are located in Spain and Portugal?

General WARREN. U.S. military facilities are located on the following Spanish military installations: Torrejon Air Base, Zaragoza Air Base, Moron Air Base (standby), and Rota Naval Base.

There are no U.S. bases in Portugal. The Portuguese allow the stationing of U.S. forces at Lejes Field, a Portuguese base in the Azores.

Mr. PASSMAN. Do you feel these bases are ——— military assistance?

General WARREN. Yes, I do. These bases play a most important role in U.S. military capabilities, the defense of Europe and the Mediterranean area, and the overall deterrence posture.

SPAIN

Mr. PASSMAN. You indicate that the United States and Spain entered into the 1970 Agreement of Friendship and Cooperation which extends U.S. base rights for 5 additional years. Did the United States and Spain agree on the level of military assistance for each of these 5 years?

General WARREN. The United States and Spain agreed on specific items of equipment to be provided under MAP for the entire 5 years. This equipment is valued at ———. The two countries also agreed that training valued at ——— would be provided as grant aid. The agreement does not provide that the grant aid need be spread evenly over the 5 years and, in fact, ———.

FRENCH PAYMENTS TO OFFSET MAAG COSTS

Mr. PASSMAN. When I traveled to Paris recently, I was told that France pays the U.S. Treasury 1 million Francs per year to offset the cost of keeping the MAAG in France. The only expense to the United States are the salaries and benefits paid to the U.S. military personnel stationed in France. Do you know if any other countries have a similar arrangement?

General WARREN. There are nine countries which make a contribution to the cost of operating the respective MAAG's. In no case does the contribution offset the cost of the MAAG. A major cost generator is the pay and allowance for our military and civilian personnel who staff the MAAG's. These costs are paid from the defense and MAP appropriations. Host country contributions do not defray this major MAAG cost.

TRAINING FOR AUSTRIA AND ———

Mr. PASSMAN. Would you please tell the committee how much is programed in fiscal year 1972 for training for Austria and ———.

General WARREN. Fiscal year 1972 MAP training programed for Austria and ——— is ——— respectively.

Mr. PASSMAN. Why couldn't these countries pay this small sum for their training?

General WARREN. Both of these countries could pay these small training costs, ———.

PORTUGAL

Mr. PASSMAN. The first country in the Europe region is Portugal, for which ——— is estimated for 1972, a ——— the current fiscal year.

Since the base right agreement between the United States and Portugal expired in 1962, has the United States been trying to get a formal agreement from Portugal?

General WARREN. United States and Portuguese authorities have consulted periodically concerning the status of the bases but, in effect, we have been operating on the current *ad hoc* basis ever since the expiration of the formal agreement in 1962. ———.

Mr. PASSMAN. Would a formal agreement be more advantageous then the present *ad hoc* arrangement?

General WARREN. I would not want to speculate on that since it would depend so much on the terms of such an agreement. ———.

Mr. PASSMAN. Are all the funds requested for materiel to be used to supply spare parts to Portugal?

General WARREN. The materiel requirements for Portugal are for spare parts with one exception. There is one requirement for ammunition to be used for training purposes.

SPAIN

Mr. PASSMAN. Spain is the next country to be considered, for which the estimated fiscal year 1972 program is ———, a ——— the current fiscal year.

You indicate the total grant military aid agreed to by the United States and Spain is ———. Will this be spread over the next 5 years including this year?

General WARREN. Of the ——— total for grant military aid, ——— is for training and the training will probably be spread about evenly over the 5 years. As for the materiel to be provided, the Spanish have indicated a desire to receive this as soon as possible and we would like to fund the bulk of it in fiscal year 1972 and fiscal year 1973. If this is done, actual deliveries of the materiel would probably extend into about the 4th year of the agreement.

Mr. PASSMAN. Why have defense expenditures as a percent of GNP dropped in Spain from 3.9 percent in calendar year 1968 to 3.6 percent in calendar year 1970, estimated?

It seems a lot of these countries are decreasing their defense expenditures as a percent of GNP while the United States is providing military assistance to them. The least they could do would be to keep defense expenditures at a constant percentage of GNP and reduce assistance from external sources.

General WARREN. The pattern you describe is found in many countries today. In many cases, this trend results from rising prices and inflation, increasing domestic pressures for nonmilitary programs and,

of course, the decisions of the political leaderships that must balance these factors. I also believe that this downward trend in many countries must be leveled off or even reversed somewhat.

Mr. PASSMAN. Is it true that most of these funds will be used to purchase new vehicles and weapons?

General WARREN. That's correct. A variety of vehicles and artillery pieces will account for most of these funds.

Mr. PASSMAN. Was any agreement reached on how much excess equipment should be provided over the 5-year period?

General WARREN. As I stated earlier, the MAP part of the agreement with Spain was to provide specific items of equipment which we estimated to be valued at fiscal year 1971 prices, at ———. Some of this equipment, is to come from excess, but the cost to repair and rehabilitate this equipment is included in the ———. We also agreed to provide excess machine tools worth ——— if new, should there be tools desired by the Spanish excess to current U.S. needs. The Spanish would pay any costs for repair or shipping of these machine tools. We do not intend to provide any additional excess equipment to Spain under MAP.

AFRICA

Mr. PASSMAN. General, would you provide for the record a table showing the percentage and the amount of the $19,009,000 which is estimated to be allocated to Africa in fiscal year 1972 for operation, investment, and training?

General WARREN. Yes, I will provide the table.

(The information follows:)

AFRICA

[Dollars in thousands]

Programed	Program value	Percent
Operating	13,141	69
Investment	2,315	12
Training	3,553	19
Total	19,009	100

MOROCCAN AND TUNISIAN MILITARY ASSISTANCE

Mr. PASSMAN. You state that one of your limited objectives of MAP assistance to Africa is to improve the limited defensive capabilities of Morocco and Tunisia. What or who are these two countries being trained to defend against?

General WARREN. Morocco and Tunisia have for some time been ———. The recent settlement of the Algerian-Tunisian and Algerian-Moroccan border disputes and a general relaxing of tensions in the Maghreb have created a less threatening environment. ———.

KENITRA COMMUNICATIONS FACILITY

Mr. PASSMAN. Is the Kenitra communications facility in Morocco important to the defense needs of the United States?

General WARREN. ———.

SOVIET INFLUENCE IN AFRICA

Mr. PASSMAN. I note in your justifications you state one of the Soviet objectives appears to be to reduce NATO and Western influence in Africa. How are the Soviets attempting to do this and are they being successful in this effort?

General WARREN. We believe the Soviets are seeking to achieve positions of influence through increased military and economic aid programs, through increased ship visits and naval presence, and cultural exchange programs. ———.

SITUATION IN LIBYA

Mr. PASSMAN. You talk about the uncertain situation in Libya ———. Would you please explain the present situation in Libya?

General WARREN. Since the September 1969 coup, Libya has been ruled by a group of junior military officers (Revolutionary Command Council). The orientation of the new leadership is essentially Arab nationalist. They have concluded an agreement to acquire considerable military equipment ———.

SOVIET ARMS TO ALGERIA

Mr. PASSMAN. Have there been large amounts of Soviet arms deliveries to Algeria this past year?

General WARREN. Soviet arms deliveries to Algeria during the last year ———.

U.S.S.R. ASSISTANCE TO ———

Mr. PASSMAN. I note in several places you mention that the Communists are trying to increase their influence through programs of economic and military assistance and you use ——— as a specific example. Is ——— presently requesting assistance from the Soviets and does she appear to be pro-Communist?

The reason I ask this question is because last year AID requested $1,950,000 in fiscal year 1971 technical assistance funds for this country.

General WARREN. ———.

EUROPEAN TRADE WITH AFRICA

Mr. PASSMAN. You indicate assistance to Africa from Western Europe is still significant, but decreasing. Is it not true that many European countries have benefited from their relationship with various African countries in the form of important trade items?

General WARREN. Many of the African countries maintain substantial economic and military relationships with their former metropoles.

DECREASE IN WESTERN EUROPEAN ASSISTANCE

Mr. PASSMAN. I assume this decrease in assistance from Western Europe will increase the U.S. assistance effort, is that correct?

General WARREN. Not necessarily. It would depend on future developments, for example, the security situation in the countries, their needs, whether their military relationship with Western Europe can be maintained on a sales basis, and what U.S. security interests, if any, might be affected.

TRAINING PROGRAM FOR CONGO

Mr. PASSMAN. The MAP material assistance program for the Congo was terminated in fiscal year 1971 but the training program is still in existence; is that correct?

General WARREN. Yes, that is correct.

Mr. PASSMAN. What other programs have we terminated this past year?

General WARREN. The fiscal year 1971 materiel program for Congo (Kinshasa) was terminated. We plan, however, to continue a small training-only program.

NEW PROGRAMS

Mr. PASSMAN. What new programs do you plan to start this year and why?

General WARREN. We do not plan to initiate new materiel programs for African countries; however, we do plan orientation training visits for a few countries such as ———.

CONGRESSIONAL RESTRAINTS ON MAP TO AFRICA

Mr. PASSMAN. You state several congressional restraints have been imposed on the African military assistance program of which one is a $40 million per year monetary ceiling on the value of defense articles and services provided, excluding training. What are the other restraints?

General WARREN. The congressional restraints specifically on military assistance to Africa are the following: (1) Section 508 of the FAA restricts grant military assistance to African countries to a total of $25 million and to purposes of meeting internal security and civic action requirement only; and (2) section 33 of the Foreign Military Sales Act imposes a ceiling of $40 million per year on the value of defense articles and services, not including training, being provided under either the FAA or the FMS Act. In addition, there are various general restraints which have some effect on our assistance to Africa, such as the restriction on students imposed by section 510 of the FAA, the restriction on provision of excess equipment contained in section 8 of the fiscal year 1971 FMS Act, and the restriction on provision of sophisticated weapons in section 504(a) of the FAA.

ORIENTATION VISITS FOR AFRICAN COUNTRIES

Mr. PASSMAN. I note you are going to provide a few orientation training visits for military personnel from other selected African countries.

What countries will participate in these orientation visits?

General WARREN. Consideration is currrently being given to the following countries:———.

Mr. PASSMAN. How much will these orientation visits cost in fiscal year 1972 and what will the costs cover?

General WARREN. For fiscal year 1972 $100,000 has been programed for these visits. These funds will provide transportation and living allowances involved in the visits.

Mr. PASSMAN. What type of training will be conducted on these orientation visits, if any?

General WARREN. Formal training, *per se*, is not included as a part of these visits. The main purpose of these visits is to provide a better understanding of the United States and, in particular, of its military establishment. Itineraries are tailored when feasible to meet a particular interest and are designed to acquaint the visitor not only with the U.S. military establishment but with the civilian aspects of the U.S. way of life as well.

LIBYA MAAG

Mr. PASSMAN. I note you plan to program $100,000 in fiscal year 1972 for support costs for a small U.S. MAAG in Libya to administer deliveries from prior and any future year sales programs.

According to your table showing MAP deliveries for this current year, you will have made all your deliveries by the end of fiscal year 1971 to Libya and I notice no credit sales have been programmed to this country for the last several fiscal years. Why then are we providing $100,000 in fiscal year 1972 for support costs for the MAAG?

General WARREN. ———. The future of the MAAG is dependent upon both the future of our overall military sales program ———.

MAAG SUPPORT COSTS

Mr. PASSMAN. Do we provide support costs for MAAG's in other countries?

General WARREN. We provide a portion of the support for all the MAAG's, missions, and milgroups.

As stated elsewhere, all such organizations are supported from a combination of the military assistance appropriation, defense appropriations, and host-country contributions.

Mr. PASSMAN. If so, how much is in this fiscal year 1972 military assistance request for these support costs? Please provide a breakout of these costs by country.

General WARREN. We are estimating $13,507.3 thousand for support of the MAAG's in fiscal year 1972. A breakout of these costs by country follows:

Military assistance support cost

MAAG:

	(In thousands)
Bellux	$190.9
Denmark	138.7
France	149.5
Germany	540.3
Greece	648.3
Italy	231.4
Libya	177.6
Morocco	177.0
Netherlands	114.0
Norway	97.8
Portugal	146.4
Spain	208.6
Tunisia	185.4
Turkey	1,266.2
Dominican Republic	143.2
Peru	81.0
Congo	612.2
Ethiopia	1,165.9
India	153.1
Iran	936.4
Jordan	107.4
Liberia	245.9
Nigeria	25.3
Pakistan	213.6
Saudi Arabia	338.8
China	1,000.3
Indonesia	256.3
Japan	204.8
Korea	3,127.2
Philippines	415.1
Worldwide total	13,507.3

NOTE: Cambodia not listed since the composition of the Military Equipment Delivery Team is not firmly established.

Mr. PASSMAN. What do these support costs cover?

General WARREN. These support costs cover, in terms of the military assistance appropriation, the (1) pay and allowances of U.S. civilian personnel; (2) change-of-station travel costs for U.S. civilian personnel and dependents; (3) temporary-duty travel of both civilian and military personnel; (4) rents, communications, and utilities; (5) printing and reproduction; (6) payment of salaries for local indigenous personnel required to support MAP overseas activities; (7) supplies and materials; (8) equipment required in MAP administrative duties; (9) other contractual services; and (10) one-half of MAAG aircraft support costs.

In terms of military department appropriation, it pays those costs for military personnel which would be incurred under any circumstances and are not peculiar to military assistance activities. These include: (1) pay and allowances of military personnel; (2) travel expenses incident to change of station of military personnel and dependents; (3) one-half of MAAG aircraft support costs; (4) operation of welfare and recreational facilities for military personnel and their dependents; and (5) medical care for military personnel and dependents.

WHEELUS WITHDRAWAL

Mr. PASSMAN. Has the United States now completely withdrawn from Wheelus Air Force Base in Libya?

General WARREN. Withdrawal from Wheelus Air Force Base was completed on June 11, 1970.

ETHIOPIA

Mr. PASSMAN. The first country in the Africa region is Ethiopia, for which the fiscal year 1972 estimate is ——— the fiscal 1971 program.

If the present government of Ethiopia changed, would the United States still be allowed to operate the communications facility at Kagnew Station?

General WARREN. ———.

INTERNAL THREAT TO ETHIOPIA

Mr. PASSMAN. What internal force is presently threatening Ethiopia's security?

General WARREN. Principally an organization called the Eritrean Liberation Front whose stated goal is the independence of Eritrea Province from Ethiopia.

ETHIOPIAN FORCES

Mr. PASSMAN. If tensions are growing between Ethiopia and the Sudan and Somalia, why would the ———.

General WARREN. ———.

F–5 AIRCRAFT COSTS

Mr. PASSMAN. How much does an F–5 aircraft cost?

General WARREN. According to the latest military assistance program data listing the current acquisition cost of the single place F–5–A is $1,100,000. The two place F–5–B model is $1,149,000.

Mr. PASSMAN. The reason I ask is because you list that in fiscal year 1972 you plan to allocate ——— for investment costs but you also indicate that ——— aircraft will be provided in the same year. Would you please explain how you can purchase ———?

General WARREN. Of course, you can not purchase ——— aircraft for ———. The cost of the ——— aircraft is included in the ——— operating costs. ———.

F–5 AIRCRAFT FOR ETHIOPIA

Mr. PASSMAN. You indicate that the U.S. military assistance program to Ethiopia will help develop the armed forces in order for them to maintain internal security. Why are ——— aircraft needed to help maintain this security?

Wouldn't a cheaper, less sophisticated aircraft accomplish the same purpose?

General WARREN. The F–5 is a multipurpose aircraft and has a capability for providing close air support to ground troops in the

conduct of counterinsurgency operations. ———. Since the F–5 is already in the Ethiopian inventory, changing to another type aircraft now could only complicate the logistics problem and increase program costs.

ALLEGED SHORTAGE OF ETHIOPIAN PILOTS

Mr. PASSMAN. In a General Accounting Office report dated February 16, 1971, the following is stated:

———.

Would you please comment on this statement?

General WARREN. We have asked each unified command to investigate the alleged deficiencies and report to us. The results of these investigations will be available on or about mid-April.

LIBERIA

Mr. PASSMAN. The next country in the African region is Liberia, for which the fiscal year 1972 estimate is ——— fiscal year 1971.

What internal force threatens the security of Liberia?

General WARREN. There is no organized internal threat in Liberia. This includes the absence of a Communist Party and Communist political representation. ———. President Tubman is currently in effective control, ———.

Mr. PASSMAN. Why is this small African country considered to be important enough for the United States to provide military assistance funds ———

General WARREN. President Tubman has been a consistently helpful ———. Our relatively small military assistance program has been one evidence to Liberia of our continued friendliness and support. Liberia does not have a former colonial power to which to look for assistance, and because of our historical ties, tends to look to us to fill this need.

Mr. PASSMAN. Is this being done without interfering in the internal operations of the Liberian Government?

General WARREN. Yes. Our military assistance to Liberia has not encouraged a military establishment which competes unreasonably for Liberian financial and manpower resources. We do, of course, urge Liberia to take organizational and other actions to improve the administration of her army.

Mr. PASSMAN. Do you think we can buy friends?

General WARREN. No. But if we cancel the assistance we have been providing over the years for certain lesser developed countries we may lose friends.

Mr. PASSMAN. Some of the military program areas listed in the presentation seem to be of a civilian nature and therefore should be administered by the U.S. economic assistance program to Liberia. Would you please comment?

General WARREN. Part of our MAP does go to support Liberian civic action projects, mostly road construction or road maintenance. Under MAP we provide equipment, support and training to the Liberian Army Engineer Battalion, which conducts or supervises much of this activity. AID also participates in this activity, however, mostly by providing the consumable-type items. Thus far it has been a

cooperative effort which seems to have made good use of limited Liberian skills and resources.

TUNISIA

Mr. PASSMAN. The last country in the Africa region is Tunisia, for which the fiscal year 1972 estimate is ——— the fiscal year 1971 program.

Has Tunisia improved her defensive capabilities since last year?

General WARREN. ———. An in-country USAF training program has helped create a nucleus around which the Tunisians are developing an F–86 squadron, ———.

TUNISIAN ARMED FORCES

Mr. PASSMAN. How would you evaluate Tunisia's armed forces?

General WARREN. ———.

EQUIPMENT FURNISHED TUNISIA BY OTHER COUNTRIES

Mr. PASSMAN. What amounts and types of equipment are being furnished to Tunisia by other countries?

General WARREN. Other than the United States, France has been Tunisia's principal source of equipment. ———. Small quantities of equipment have been provided by the FRG, Sweden, the UK, the UAR, the Netherlands, and Italy.

TUNISIAN MILITARY ASSISTANCE

Mr. PASSMAN. Do you feel it is beneficial to the United States to provide this equipment and help Tunisia improve her defensive capabilities?

General WARREN. The provision of this equipment helps promote internal stability and a sense of national security necessary to allow Tunisia to develop economically ———.

As a moderate Arab nation, Tunisia has used its good offices in trying to reduce civil strife in Jordan.

LATIN AMERICA

Mr. PASSMAN. General, could you briefly tell the committee just what the present political situations are in the various countries in Latin America?

(The information was provided to the committee.)

———.

COUPS

Mr. PASSMAN. Have any countries experienced a coup in the last year and, if so, has the United States suspended military assistance to the countries which experienced a coup?

General WARREN. Last year the only country experiencing a coup in Latin America was Bolivia. Military assistance, sales, and advisory activities were suspended on October 8, 1970, at the time of the coup. After clarification of the new government's attitudes toward the United States, the suspension was lifted.

MILITARY GOVERNMENTS

Mr. PASSMAN. How many and what countries in Latin America are presently being ruled by military governments which took power by force?

General WARREN. There are five countries in Latin America presently being ruled by military governments which took power by force. The countries are: Argentina, Bolivia, Brazil, Panama, and Peru.

RESULT OF TRAINING PROGRAMS ON LATIN AMERICAN COUNTRIES

Mr. PASSMAN. An article in the Washington Post of December 29, 1970, stated that the United States may have unintentionally stimulated some military coups in Latin America in the 1960's because of counterinsurgency training provided to some of the military forces. Would you please comment on this situation?

General WARREN. The Latin American military officer is influenced politically by the environment in which he lives and by the training he receives in his own country. U.S. programs cannot be expected to negate the political beliefs and attitudes of a lifetime among which is the widely accepted reaction in Latin America of intervention by the military when it judges that the government has failed. Nevertheless, training in the United States does expose him to U.S. concepts of democracy and the proper role of the military in society. U.S. training is aimed at maintaining internal security and stability in order that economic progress can be achieved. No part of the U.S. training given him is in any way related to overthrow of governments.

MILITARY EXPENDITURES

Mr. PASSMAN. How does the United States go about encouraging Latin American countries to develop only those military forces needed for valid security needs and to avoid military expenditures which would interfere with the socioeconomic progress?

General WARREN. We recognize that we must deal realistically with the Latin American Governments as mature partners and without paternalistic interference in their internal affairs. No one likes to see money spent unnecessarily on arms. Nevertheless, it is unrealistic to expect the larger Latin American countries to phase out or disband their armed forces. Most of their equipment is of WWII-Korean war vintage and large quantities predate WWII. We cannot expect the Latin American military to continue to make do with this obsolete equipment. At some point in time, they will acquire more modern military equipment. It would be in everyone's interest that they do so in a way that would not stimulate an arms race through the introduction of overly sophisticated equipment and with the least diversion of resources. Our Military Groups endeavor to advise the host countries to acquire only equipment essential for internal security purposes and to avoid military expenditures which would interfere with socioeconomic progress. Unless we can assist in greater measure with their modernization requirements, however, through the removal of current legislative restrictions, we have very little influence or impact on their equipment acquisitions.

PURCHASE OF WEAPONS

Mr. PASSMAN. I know the United States can restrict its own aid to the Latin American countries but what prevents these countries from buying weapons from other countries in the world?

General WARREN. With the existing legislative restrictions on military sales to Latin America there is little that the United States can do to prevent Latin American countries from buying weapons from other countries in the world. Our Military Group representatives try to discourage their hosts from making excessive military equipment acquisitions with varying degrees of success. In the final analysis, however, with the existing legislative restrictions they are not in a position to offer alternative solutions and consequently have limited impact on decisions. The United States could have a major impact on third-country purchases if we could offer military equipment on a competitive basis with other countries in the world. The removal of restrictions concerning sophisticated equipment and regional ceilings would be a step in this direction. Many Latin American countries prefer to purchase their military equipment from the United States because their logistic system is U.S.-oriented.

Mr. PASSMAN. Could you tell us what countries in Latin America are presently purchasing weapons from other countries which the United States considers to be beyond the "valid security needs" of the particular country?

General WARREN. It is difficult to give a precise answer to your question. As a general statement, however, we could consider that, in the context of our own military plans and from our vantage point, military equipment acquired by those countries for a role other than for internal security purposes would exceed "valid security needs." In this category would be military equipment such as submarines, aircraft carriers, jet bombers, long-range ground-to-ground missiles and heavy tanks. I should point out, however, that they are not beyond the countries' "valid security needs" as they themselves see their needs.

COUNTRIES SUPPLYING MILITARY EQUIPMENT TO LATIN AMERICA

Mr. PASSMAN. What third countries are supplying these weapons?

General WARREN. The following countries are supplying military materiel to Latin American countries: France, United Kingdom, Netherlands, Switzerland, Canada, Italy, Belgium, Germany, Yugoslavia, and the U.S.S.R.

CONGRESSIONAL RESTRAINTS ON MAP

Mr. PASSMAN. You indicate that several congressional restraints have been imposed on the military-assistance program to Latin America of which one is a monetary ceiling of $75 million per year on the value of defense articles and services, excluding training, provided under the MAP and sales programs. Would you please tell the committee what the other restraints are?

General WARREN. Other specific restrictions on military aid to Latin America are within the Foreign Assistance Act of 1961, as amended.

Section 507(a) the value of grant programs of defense articles for American Republics in any fiscal year beginning with the fiscal year 1962, shall not exceed $25,000,000 of which any part may be used for assistance on a cost-sharing basis to an inter-American military force under the control of the Organization of American States.

Section 507(b) to the maximum extent feasible, military assistance shall be furnished to American Republics in accordance with joint plans (including joint plans relating to internal security problems) approved by the Organization of American States. The President shall submit semiannual reports to the Speaker of the House of Representatives and to the Committee on Foreign Relations of the Senate on the implementation of this subsection.

Section 507(c) except (1) to the extent necessary to fulfill prior commitments, or (2) for civic action assistance, or (3) to the extent that the President finds, with respect to any Latin American country, that the furnishing of military assistance under this act is necessary to safeguard the security of the United States or to safeguard the security of a country associated with the United States in the Alliance for Progress against overthrow of a duly constituted government, and so informs the Congress, no further military assistance under any provision of this act shall be furnished to any Latin American country.

Section 507(d) notwithstanding the foregoing provisions of this section, not to exceed $10 million of the funds made available for use under this part may be used to furnish assistance to the American Republics, directly or through regional defense arrangements, to enable such Republics to strengthen patrol activities in their coastal waters for the purpose of preventing landings on their shores, by Communist or other subversive elements originating in Cuba, which threaten the security of such Republics and of their duly constituted governments.

In addition, there are various general restraints which have some effect on our assistance to Latin America, such as the restriction on provisions of excess equipment contained in section 8 of the fiscal year 1971 FMS Act, and the provision of sophisticated weapons in section 504(a) of the FAA.

MAKE-UP OF LATIN AMERICA MAP REQUEST

Mr. PASSMAN. I notice this year you propose that the entire program for fiscal year 1972 for Latin America will consist only of training and no materiel will be provided, is that correct?

General WARREN. The program proposed for Latin America provides for no materiel except that which may become available from the contingency fund, which would require obtaining a Presidential determination on a case-by-case basis.

Mr. PASSMAN. Would you please explain this change in the program?

General WARREN. The reason for the change in the Latin America program is the limit of $75 million for defense articles and services for Latin America contained in prior year legislation. We already are approaching that limit in FMS dollar amounts alone, in anticipated sales

based on interest expressed by Latin American countries, so that we are unable to program any grant MAP other than training under the current ceiling. The amount shown for Latin America in the current request is primarily for training, which is not subject to the ceiling limitation. We are requesting an increase in the Latin America regional ceiling in current legislation, and if the ceiling is raised, we will fund some grant materiel programs on a country-by-country and case-by-case basis from the contingency fund.

TRAINING PROGRAM COSTS

Mr. PASSMAN. Since all the programs listed for fiscal year 1972 for the individual countries are under a $1 million and seven country programs are even under $500,000, why does the United States find it necessary to finance this training? I am sure the countries could foot the bill.

General WARREN. These small training programs reflect a phase down from the larger programs of earlier years. The recipient countries have assumed an increasing share of their own defense requirements; however, they still need some assistance. The fiscal year 1972 program contains no grant materiel assistance. The remaining small grant training programs are an important ingredient of our overall relationships with these countries. If we stop our training assistance, we will create serious problems in our broader relationships with these countries. The Latin Americans do pick up a share of the cost of this training in the form of per diem costs and, in certain instances, transportation for their students.

KIDNAPPING U.S. PERSONNEL

Mr. PASSMAN. I guess one of the reasons is to maintain a more friendly attitude toward the United States but I don't know if we are succeeding in this area with all the kidnappings of U.S. personnel which have taken place. Do you have any comments on this subject?

General WARREN. Tensions have risen sharply in Latin America during the past 2 years with several acts of violence directed against foreign officials including several Americans. Kidnapping is essentially a national problem over which the United States has little control. We expect local governments to exercise fully their responsibility for protection of foreign officials, but we do not ask them to accede to extreme demands. Within a broader framework we actively encouraged the drafting of an OAS convention on the extradiction and prosecution of persons committing crimes against diplomats or other foreign personnel. The few kidnappings of U.S. personnel which have occurred are the work of determined enemies of the United States opposed to the governments with whom we have friendly and cooperative relations, and in no way supported by them or their peoples.

FUNDS FOR CHILE

Mr. PASSMAN. I note you are planning to program training funds in fiscal year 1971 and fiscal year 1972 for Chile. This country presently has in power a Marxist government so would you explain why the United States is providing military training funds for this country?

General WARREN. As set forth in the President's February 25, 1971, foreign policy presentation to Congress (U.S. Foreign Policy for the 1970's), our bilateral policy is to keep open lines of communication. We assume that international rights and obligations will be observed. We are prepared to have the kind of relationship with the Chilean Government that it is prepared to have with us. While we do not seek confrontations with any government, those which display unremitting hostility cannot expect our assistance. And those which violate the principles of the inter-American system, by intervening in the affairs of their neighbors or by facilitating the intervention of nonhemispheric powers, cannot expect to share the benefits of inter-American cooperations. We will therefore observe closely the evolution of Chilean foreign policy.

Mr. PASSMAN. I also note that you plan to train some of these trainees in the United States. Don't you believe before we train any of Chile's armed forces, we should determine which way Chile is going to move in her diplomatic programs?

General WARREN. As I stated in the response to the previous question, those countries that take actions hostile to us cannot expect our assistance. We will therefore observe closely the evolution of Chilean diplomatic programs in terms of this policy.

FUNDS FOR ECUADOR

Mr. PASSMAN. You also have programed training funds for Ecuador in fiscal year 1971 and fiscal year 1972. Have we suspended aid to Ecuador because of her seizure of American fishing vessels?

General WARREN. FMS assistance to Ecuador was suspended in January 1971 following the seizure of an American tuna boat. All other forms of military assistance to Ecuador were terminated in February 1971 after Ecuador, as an act of retaliation for the FMS suspension, expelled the U.S. Military Group that administered the aid program and provided advisory assistance.

Mr. PASSMAN. Will the funds you have presently programed for training for Ecuador be withheld until some equitable settlement is made to the United States concerning these incidents?

General WARREN. With the withdrawal of the U.S. military group at Ecuador's request, we have no basis for continuing the training program and will, under the present circumstances, withhold the training funds programed for Ecuador.

WITHDRAWAL OF U.S. ASSISTANCE IN LATIN AMERICA

Mr. PASSMAN. Have there been any other incidents this past year in which U.S. assistance was discontinued to any Latin American country?

General WARREN. With the exception of Ecuador, there have been no other incidents during the past year in which U.S. assistance was discontinued to any Latin American country. The October 1970 coup and counter coup in Bolivia resulted in a MAP suspension on October 8, 1970. MAP was resumed on October 13, 1970, following resumption of normal relations with the new government.

REGIONAL COSTS

Mr. PASSMAN. You list $191,000 for "Regional Costs." What do these costs cover?

General WARREN. The $191,000 for "Regional Costs" covers the following: (*a*) $30,000 for supplies and materials to support on-the-job training at the School of Americas, and to provide miscellaneous supplies and equipment for mobile training teams. (*b*) $107,000 for the support of training exercises involving various Latin American countries. The exercises include such areas as communications, surveillance, and coordination of ground forces. (*c*) $54,000 for other training support which includes costs for (1) various seminars; that is, intelligence, signal, civic action, consisting of leaders from different Latin American countries for the purpose of exchanging ideas; (2) film narration in Spanish for School of Americas and Inter-American Air Forces Academy and printing of publications for the School of Americas.

EXCESS EQUIPMENT

Mr. PASSMAN. You have no excess equipment programed for any Latin American country in fiscal year 1972; is that correct?

General WARREN. That is correct. As previously stated, there is no materiel program provided for Latin America in fiscal year 1972 except that which may be provided on a case-by-case basis from funds available through the President's Contingency Fund. Defense programing policy precludes the provision of excess equipment for countries for which only training is authorized.

NONREGIONAL

Mr. PASSMAN. General, would you explain briefly how the decrease of $8,394,000 below last year was accomplished?

General WARREN. Nonregional costs have decreased $8,394,000 between the fiscal year 1971 and the estimated fiscal year 1972 military assistance programs. Decreases were in administrative expenses—$2,300,000; supply operations for phaseout countries—$484,000; storage and maintenance of MAP materiel—$378,000; and training—$32,000. The contingency requirement of $5,200,000 has been dropped in fiscal year 1972.

CONTINGENCY REQUIREMENT

Mr. PASSMAN. Has any of the $5,200,000 programed in fiscal year 1971 for contingency requirements been obligated thus far?

General WARREN. The $5,200,000 programed in fiscal year 1971 for contingency requirements has not been obligated thus far.

Mr. PASSMAN. If these funds are not needed during fiscal year 1971, will they be reappropriated in fiscal year 1972?

General WARREN. The funds will be used during fiscal year 1971 for worldwide materiel requirements and, therefore, will not require reappropriation.

PHASE OUT COUNTRIES

Mr. PASSMAN. General, would you list for the record the names of the phaseout countries for which you are requesting $1,424,000 for supply operations?

General WARREN. There are twenty (20) phaseout countries which require supply operations funding in fiscal year 1972. These countries are:

Iran	Ecuador
India	El Salvador
Libya	Guatemala
Morocco	Honduras
Argentina	Nicaragua
Bolivia	Panama
Brazil	Paraguay
Chile	Peru
Colombia	Uruguay
Dominican Republic	

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. How are you able to reduce your administrative expenses by $2,300,000 when the MAP program will be much higher in fiscal year 1972 than you anticipated it would be last year in fiscal year 1971?

General WARREN. The $2,300,000 reduction reflects the net impact of personnel reduction within selected MAAGS and stateside, as well as the transfer of funding for military PCS and supplemental station allowances from MAP to Defense appropriations commencing in fiscal year 1972. These transfers account for $1,600,000 of the reduction. Substantial personnel reductions have been directed for China, Iran, and several European MAAGS (Bellux, Denmark, Germany, Italy, Netherlands, and Norway) in fiscal year 1972. Additionally, in spite of the increased program, the numbers of personnel who administer the program at the Washington level are being reduced during the latter part of fiscal year 1971, resulting in decreased funding requirements for fiscal year 1972. These personnel reductions account for the remaining $700,000 decrease in administrative expense as compared with fiscal year 1971.

Mr. PASSMAN. Again this year would you explain the relationship between the $1,900,000 requested under administrative expenses for reimbursement to the State Department in fiscal year 1972 and the $1,700,000 requested under training for the same purpose?

Please also furnish the same table reflecting the country breakdown of these two items as you provided last year.

General WARREN. When common services are provided by the U.S. Embassies, the State Department is reimbursed from military assistance funds. These common services may include: cryptographic services; translation and interpretration services; foreign language training; and other housekeeping services. The Department of State is also reimbursed for the indirect costs—overhead—involved in providing these common services.

The total cost of these services for fiscal year 1972 is estimated in the amount of $3,600,000. Since these costs are generated by all personnel, the composition of the personnel in a given MAAG dictates whether we charge their support cost to administration or to training or, as is frequently the case, to both.

In fiscal year 1972, we are estimating that our total reimbursement to State for our MAAG operations will be distributed: $1,900,000 for service in support of the administrators, and $1,700,000 for service in support of the trainers.

(The table follows:)

Estimated reimbursement of State Department services in support of MAAG Activities

MAAG:	(In thousands)
Bellux	$59.9
Denmark	50.1
France	74.3
Germany	374.9
Greece	283.0
(Regional Communication Center)	146.2
Italy	155.0
Libya	100.0
Morocco	74.9
Netherlands	54.3
Norway	27.9
Portugal	50.9
Spain	9.5
Tunisia	89.6
Congo	260.8
Ethiopia	197.3
India	52.1
(Regional Communication Center)	15.4
Iran	86.1
Jordan	54.0
Liberia	36.1
Pakistan	80.5
(Regional Communication Center)	64.6
Nigeria	11.2
Cambodia	150.0
Indonesia	126.2
Japan	40.5
Philippines	15.6
Taiwan	13.8
Korea	4.3
Dominican Republic	104.4
Peru	34.2
Bureau Overhead	652.4
Total Reimbursement	

MAAG OPERATION

Mr. PASSMAN. Would you briefly discuss the MAAG operation and explain how the cost of these advisory groups are divided between this appropriation bill and the defense appropriation bill?

General WARREN. The MAAG is responsible for planning, supervising and implementing the military assistance program in the host country with the purpose of developing its military posture so as to support its defense commitments. These responsibilities include training facilities assistance and administering the cooperative logistics, military sales and grant aid programs to include the continuing residual grant aid activity in the phased out countries.

The defense appropriation bill covers the pay and allowances and PCS of military personnel assigned to the MAAG, their welfare and recreational activities, dependent schooling, and 50 percent of the costs

of operating MAAG aircraft. All other MAAG costs are paid from MAP.

Mr. PASSMAN. Please provide an updated table which appeared on page 477 of last year's hearings showing the number of personnel assigned to countries where we do not now have a MAP program.

(The information follows:)

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, 1971				Estimated cost per country, fiscal year 1972 (dollar, thousands)			Year MAP phased out
	United States		Foreign nationals	Total	Total	Country share	U.S. share	
	Military	Civilian						
Belgium/Luxembourg	7	1	3	11	———	———	———	1965
Denmark	7	0	4	11	———	———	———	1967
France	7	1	7	15	———	———	———	1964
Germany	27	6	9	42	———	———	———	1964
Italy	13	2	3	18	———	———	———	1965
Libya	5	0	1	6	———	———	———	1970
Netherlands	8	0	3	11	———	———	———	1965
Norway	6	1	3	10	———	———	———	1967
Japan	5	5	6	16	———	———	———	1967
Costa Rica	4	0	1	5	———	———	———	1967
Total	89	16	40	145	———	———	———	.....

Mr. PASSMAN. Are all of the expenses of these people paid out of this appropriation bill or are the salaries paid by the Defense Department.

General WARREN. Defense Department appropriations cover pay, regular allowances and permanent change of station (PCS) of military personnel, their welfare and recreational activities and dependent schooling.

Mr. PASSMAN. Why is it necessary to maintain these advisory groups in the countries where we have no MAP program?

General WARREN. U.S. Military Assistance Advisory Groups (MAAGs) are necessary in countries where military assistance grant aid programs have terminated to perform the following functions:

(1) Supervision of end-item use in the country.

(2) Arrange for the disposition of MAP materiel excess to the requirement of the particular country.

(3) Assist the country in foreign military sales program and in the development and implementation of cooperative logistic arrangements.

(4) Arrange for the receipt and transfer of any remaining undelivered MAP materiel.

(5) Provide Department of Defense representation to host government defense establishment.

(6) Provide military advice to Chief of U.S. Diplomatic Mission in the country.

Mr. PASSMAN. Would you please explain the MAAG aircraft support cost item?

General WARREN. MAAG aircraft support costs include the cost of aviation POL, TDY of maintenance crews to and from maintenance locations, aircraft parking and landing fees and cost for aircraft guard services in addition to spare parts and maintenance support. These costs

are shared, the MAP appropriation paying 50 percent and the military department appropriation paying 50 percent for military department aircraft assigned to the MAAG.

SOVIET MILITARY ASSISTANCE

Mr. PASSMAN. I yield to the gentlelady, Mrs. Reid.

Mrs. REID. Thank you, Mr. Chairman.

General Warren, according to a recent report in the New York Times, 25 countries are receiving military aid from the Soviet Union. It also states that the annual Soviet arms aid has jumped to $800 million. Are there any countries which are receiving arms aid from both the Soviet Union and the United States?

General WARREN. I have some figures here estimating $1.8 billion in communist aid in 1969 and 1970. These are just some of the countries. For example, to the UAR ——— to North Vietnam, ———, and so on. Cambodia in the past received some aid from the U.S.S.R. There must be about 14 free world countries, as they are called, that receive communist aid, some of which we provide aid to.

Mrs. REID. Will you provide that list for the record?

General WARREN. Yes, I will.

(The information follows:)

COUNTRIES RECEIVING ARMS AID FROM BOTH THE SOVIET UNION AND THE UNITED STATES

General WARREN. Countries to receive U.S. materiel and training grant aid in fiscal year 1972 which have received Soviet military assistance are Cambodia and Indonesia.

Countries to receive U.S. training only grant aid in fiscal year 1972 which have received Soviet military assistance are: ———

Mrs. REID. In this same article it is stated that the number of Soviet military advisers and technicians around the world, exclusive of Warsaw Pact countries, is now estimated to be at least 25,000. Do you have any information as to where these technicians have been sent?

General WARREN. Yes. First, I would like to provide the figures that I received the day before yesterday. While we have reduced our MAP authorized personnel strength from approximately 7,400 to about 3,600 over the last 3½ years—which is a cut of about 3,800—Russia has increased hers by about 4,000 in number, to ———. While we are phasing down to 3,600 now, the U.S.S.R. has gone up to ———. These are the equivalent of MAAG's. But this is only part of what you are referring to.

I don't know exactly where all the rest of the Russian personnel are, but the U.S.S.R. has several thousand who aren't MAAG types. They are in the United Arab Republic, training them and helping them run their missile sites, for example. They have a lot of them in Cuba, training. They are scattered throughout the Communist world. I will do my best to find out totals by country, if I can. The significant thing is while we are tearing down our MAAG's so fast, they are building up quite fast. I have a sheet here of the Communist military technicians in Arab countries during the period June 1967 to 1970. It totals ———. Their military assistance groups are just a part

of that. They are a little bit different in that they are the headquarters advisers and not field workers.

Mrs. REID. I think it would be well to expand this for the record, because I think many people don't seem to understand that this is happening, and I think it is well that we do have the facts for the record.

(The information follows:)

SOVIET MILITARY TECHNICIANS AND ADVISERS IN FREE WORLD COUNTRIES, 1970

General WARREN. During 1970, Soviet military technicians and advisers were active in the following free world countries:

Country:	*Number*

(Discussion off the record.)

SAVINGS RESULTING FROM U.S. WITHDRAWAL FROM KOREA

Mrs. REID. Would you expand on your statement on page 5, about the overall savings in Korea, as a result of the implementation of the Nixon Doctrine?

General WARREN. That refers to the troop withdrawal from Korea—20,000 troops. Only part of the savings that occur are realized immediately. There are other savings that continue year after year, because some of the withdrawing units were deactivated. I don't believe I have the exact figures on savings.

Mrs. REID. Can you project how much will be saved as we reduce our own forces and help to build up the Korean forces?

General WARREN. Yes; we would estimate a savings over the next 5 years of about $500 million, as a result of withdrawal of our 20,000 from Korea alone. I don't have figures for South Vietnam because I don't get involved in those withdrawals. I believe yesterday Secretary Laird said it amounted to an incremental saving of something like $7 billion a year, but I would like to recheck that, and if I am wrong, correct it in the record.

QUESTION OF MAP BEING OUT OF DATE

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 the U.S. security. Would you comment on this?

General WARREN. I don't think the program is out of date. The problem with most of our forward defense allies—these are the ones up next to the Communist world, such as Korea, China, Thailand, Greece, and Turkey—I believe that their forces are the right kind but some of their equipment is out of date.

For example, Turkey has the largest land army in the NATO area, and it is very important to us. On the other hand, her navy is small, and she is going to have to depend on other NATO countries if there is an emergency to provide her with naval assistance. I don't believe our program is out of date.

We are really only talking about 13 materiel countries. What we are doing is updated and approved by our Joint Chiefs each year as the proper objectives from the military standpoint. It is sort of complicated, because each country is different, but some of the equipment are out of date. The forces that we would like to update the equipment for, are the proper ones in my opinion, because none of these countries can afford any nuclear weapons, items like nuclear submarines or intercontinental missiles. The United States is going to have to handle that one for them. If people are talking about that type of a problem, yes, some countries are behind, but that is why we have security arrangements with many countries.

As far as the Nixon doctrine is concerned, I don't remember the exact words, but we will shield our allies and nations vital to our security if any nuclear power threatens their freedom. There is no intention of ever letting them have the weapons.

TRAINING IN THE UNITED STATES FOR FOREIGN MILITARY

Mrs. REID. Approximately how many foreign nationals are receiving training in the United States, under the military assistance program?

General WARREN. Around 4,000 in fiscal year 1970 in the United States I have the exact figures here. For 1971 there were 8,632 total trainees of whom 4,000 were or will be trained in the United States. I believe your question is how many were trained here?

Mrs. REID. Yes.

General WARREN. 4,000 in 1971. It will be 4,000 or more in 1972, although our submission, which was based on records in January 1971, lists only 3,744. The point is we aren't in 1972 yet, so as the year progresses, we will be adding individuals to that figure, as our MAAGS revise their programs for fiscal 1972.

Mrs. REID. What type of training actually is provided?

General WARREN. Much of the training in the United States is technical for the purpose of qualifying people on weapons systems they are receiving from the United States. They send hundreds of technicians who are trained in the various aspects of hydraulics, engines, and communications. Most of them are military technical courses.

Then we send the more senior people to the various service commands and staff schools, because we feel this is an excellent way to develop an effective interface with senior people of other countries who will be in a position of high responsibility in the future. There are a lot of people in high places around the world who were trained here. I have some examples of MAP courses. There is pilot training, engineering, officer field artillery, advanced ordnance, advanced armor officer, signal officer, this type thing. They are all related to the military.

REDUCED MAP FOR CHINA

Mrs. REID. Inasmuch as the Republic of China has made substantial progress in obtaining economic independence, do you feel that we can eventually substantially reduce our military assistance program there?

General WARREN. I feel we can and will and actually we already have. China is an excellent example of the success of this program, in that her grant program just about 5 years ago was $90 million. Then it came down to $30 million, and it is now less than ——— million. At the same time in the last 3 years, her requests for credit to buy things from the United States, and repay us, have gone up steadily. I believe they would like to have credit, in 1972, of ——— which amounts to a pretty big self-help fund. They are now buying much more from the United States now than we are giving them.

Our program last year of $20 million, was not even adequate to cover her O. & M. costs, that is parts and things to support her existing forces.

EFFECTIVENESS OF GREEK ARMED FORCES

Mrs. REID. How does the effectiveness of the Greek armed forces today compare with what it was prior to the military coup?

General WARREN. I would have to just quote some of my Army friends. I was in Greece last month. Their comments on the Greek forces are that those forces are in excellent shape and doing a really fine job, ———. This is in spite of the fact that we only recently released tanks and items that had been suspended. Greece was short ——— tanks. She had only ——— and her forces called for ———. We are now filling the gap there, and she is doing very well.

U.S. RELATIONS WITH THE PHILIPPINES

Mrs. REID. What has been done to improve our relations with the Philippines? What are the current plans with respect to bases there?

General WARREN. May I answer part and ask my State colleague for the rest. Clark Air Force Base in the Philippines is a major depot and supply point for our support of the war in Southeast Asia, so it is very important that we keep it ———.

We are, however, relinquishing the U.S. Naval Air Station at Sangley Point, which is across the bay from the city of Manila. Then there are a lot of other miscellaneous locations in the Philippines where we have communications and radar facilities. We have and are withdrawing a large number of U.S. forces from the Philippines.

A while back there was concern. For instance, at Clark, many dependents live in areas adjacent to the base and were subjected to damage and loss of personal property as well as fear for their physical well being. There is a criminal element outside the base and a lot of gangster-type business going on. Withdrawing as many of our people as we could from the local economy and getting them on base is one thing that we have done to improve relations and avoid incidents.

Mr. CHAPMAN. The Philippine society is going through turmoil. We are trying to put our relations on a new basis. There is a working group now, Filipino-American, discussing the military bases agreement.

EFFECTS OF MAP IN THE FREE WORLD

Mrs. REID. General, what lessons would you say have been learned from our military assistance program to Indochina over the past two decades, say? How would you say these lessons have been learned as to how this will effect future planning, especially with respect to possible internal civil conflicts?

General WARREN. Our assistance to Thailand, of course, has given us a very close association with the Thais at a critical time in our military involvement in Southeast Asia. Some of the best bases, including those for our air activities in SEA are in Thailand. Our past aid programs, and our association in the past with the people who now lead the government—many of those officers, for example the head of the air force, were trained over here—has been beneficial.

I just don't have any real specific comment on Laos and South Vietnam. With a war going on, I really can't analyze whether our past grant aid was effective or not. I don't know.

Mrs. REID. Would you comment, Mr. Secretary?

Mr. CHAPMAN. If we had done nothing in Southeast Asia, I think the general opinion is that that area would be in the sphere of influence of Communist China today. In 1954 North Vietnam was the strongest power in the area, would have taken over South Vietnam. Laos has always been a border state. It has never been a very unified country. There was an element that was allied to Hanoi, the Pathet Lao, and Thailand had a strong party that took its orders from Peking. I think that if we had done nothing, if there had been no American effort, that the whole area would have been under the influence of China.

It is uncertain what would have happened in Malaysia and Singapore, but you will recall there was a 12-year struggle in Malaysia between the British forces there and the Chinese Communists. Some of us also think that this would have had an influence on Indonesia, that Sukarno would not have been overthrown in 1965, and that Indonesia itself would probably be also in Peking's sphere of influence.

Mrs. REID. Of course, I realize this is a tremendous question, to go back through history and point up, I am sure, many reasons for doing the progression of events, and if you want to take this out of the record completely, that is all right. If you want to expand, that will be fine.

Mr. HATHAWAY. Will the gentlelady yield?

Mrs. REID. Yes.

EFFECTS OF EXPANDING COMMUNIST INFLUENCE

Mr. HATHAWAY. Could you elaborate a little bit more and tell us what detrimental effects the Chinese influence would have on the United States. We are dealing with some Communist countries like Yugoslavia and there is no detrimental effect upon the United States because they happen to be Communist.

Mr. CHAPMAN. It has been the experience in the last 20 years that those who are oriented to socialism and communism are not as well off as those who have remained free. You can compare South and North Korea. You can even compare South and North Vietnam. South Vietnam was doing far better than North Vietnam.

Mr. HATHAWAY. Was that because they were free or they had the agricultural base so that they are better off and North Vietnam had a considerable shortage of rice?

Mr. CHAPMAN. That is true, but North Vietnam had on the whole more trained people and had a somewhat better industrial base, though it was very narrow, but if you look around the globe, at the countries that have remained free, they have by and large done better than the others, whether in Europe or Asia. Africa is too soon.

Mr. HATHAWAY. What detrimental effect does that have on the United States? You say if we had not gone in there, there would be Chinese influence over all of Southeast Asia. How would that affect us?

Mr. CHAPMAN. They would have turned to a form of Communist-socialism, and you would have had overall more countries that would be opposed to us in all the international organizations. There would have been some shift in that overall balance that we believe would be detrimental.

Mr. HATHAWAY. We would be voted down more times in the U.N.?

Mr. CHAPMAN. We would have had more trouble in the U.N. and more trouble in other organizations. Also countries make a judgment as to how the balance of influence is established in the world, and would have taken probably a softer stance, vis-a-vis China and the Soviet Union.

Mr. HATHAWAY. But it wouldn't pose a military threat to us, would it, for this Nation as a nation?

Mr. CHAPMAN. It is very difficult to draw the line as to where the military threat begins; 1941 proved to my generation that you can't draw the security boundary at our frontier, and we do have a State that is in the Pacific, Hawaii, which is pretty far out. We believe that the shift could have been serious.

Mr. HATHAWAY. I don't want to take up too much of Mrs. Reid's time, but it seems that if the situations aren't parallel, it was fairly obvious what Hitler intended to do. It doesn't seem to be the same situation as pertains with respect to Communist China. They don't have any large navy or air force either to take over Hawaii, nor does our intelligence indicate that they would want to.

Mr. CHAPMAN. No, they have too many general problems right now, but the Korean war was fought, and at that time the view was that if North Korea was allowed to invade and conquer South Korea, that this would encourage aggressiveness of the other side, and that this would have a tremendous impact on Japan. Japan right now, in 20 years, as you know, is a major factor for stability in that whole area, so it is always a problem as to where exactly do you draw the line, but we are convinced the line is not at the American frontier. It is very late in the day.

Mr. HATHAWAY. I would like to pursue this with you further, but Mrs. Reid, I have imposed enough on your time now and I will do it on my own time.

Mrs. REID. I have finished. The chairman covered the other questions I have.

Mr. ROYBAL. Mr. Hathaway.

USE OF EQUIPMENT EXCESS TO U.S. NEEDS

Mr. HATHAWAY. General, when I asked the chairman to yield at one time, we were in the process of discussing with you this excess of equipment. Has anyone asked you to put into the record just what you would do with the excess; if we could get rid of the $100 million limitation?

General WARREN. Sir, I can't say exactly, because we don't know what excesses will be coming up in the future.

Mr. HATHAWAY. Based on what you have got here. I have a sheet indicating this.

General WARREN. Yes, sir. If you would like for me to use this illustrative sheet and put in the record where these items would probably go, I would be happy to. Most of them would go to Greece and Turkey, and some of them to Cambodia.

Mr. HATHAWAY. Would they be subtracted from the grant and credit aid?

General WARREN. No, sir. They would be in addition to it.

Mr. HATHAWAY. I thought the chairman was making the point that if we could release this, then we could save some money.

General WARREN. I thought he was making the point that if we don't release it, we will be wasting a lot of money.

Mr. HATHAWAY. On the other hand if we did release it wouldn't we be saving some money? I don't say that a used M–48 tank is as good as a new one, but at least we could save some of the money that we are giving in military assistance. Maybe it would only be 50 percent.

General WARREN. There are a lot of different angles to it. The main concern that we have is that, in this unique and critical period in our history when there are going to be so many major items becoming available and surplus as the Vietnam war phases down if we couldn't use these items for our allies who need it. As you know, we also made use of the equipment left by the withdrawing U.S. forces in Korea.

EXCESS SUPPLEMENTS REGULAR PROGRAM

Mr. HATHAWAY. On page 2 of your statement you say, referring to this excess:

> If we cannot apply them against our valid military assistance requirements this equipment must be sold as scrap.

I just presumed from that you meant the military assistance requirements that you are asking for.

General WARREN. No; I don't.

Mr. HATHAWAY. In addition to the excess?

General WARREN. May I take one moment to explain that?

We have a list from each country which is called our short-fall list. It totals about $1.5 billion in requirements. These lists are provided us. They are the best estimates of the commanders in chief of the various Unified Commands, Admiral McCain in the Pacific, for example. Those lists show the requirements that the unified commander feels the MAP countries in his area need to replace obsolete items, or to fill out the units we are trying to support. We have a $1.5 billion requirement here, let's say, for specific line items, that is above and beyond our regular MAP dollar program. It is against this package of shortages that we apply most of the excess. That is why money can't be reduced from the program if we use excess. We can't program excesses intelligently because we don't know what excess may be coming available in the next year, so we need excesses in addition to the grant aid.

Mr. HATHAWAY. So that the grant aid you are asking for really isn't as much as you need.

General WARREN. That is correct.

Mr. HATHAWAY. For an individual nation?

General WARREN. That is correct, sir. Of course, we recognize there has got to be a reasonable limitation on each year's program. That is why in the case of Korea, for example, we have tried to plan this out in a realistic manner for 5 years. We could put ——— in there this year, but it wouldn't be a balanced program. Excess is a great source of equipment we badly need.

For instance, in Korea I believe the last time I was over there, they had ——— trucks that were deadlined. We would like to replace those ——— trucks, and we will replace a lot of them from this excess, sir. One of these lists I passed out showed several hundred trucks, as I recall, that the services have offered us, if we have a place to use them. We can't send them to the countries where we would like to use them, because we have a restriction of $100 million ceiling on excess.

Mr. HATHAWAY. What about the excess, for example, that you are going to have in Vietnam that you mentioned as a result of our withdrawal. Some of that could be used in Cambodia, I presume.

General WARREN. Yes, sir.

Mr. HATHAWAY. Or right in South Vietnam?

General WARREN. That is correct. There are billions of dollars worth of equipments over there in warehouses and with our units, some of which possibly would become available over the next 3 years.

Mr. HATHAWAY. But you still say we couldn't save any of the ——— for example that we are going to send to Cambodia, by releasing these excesses, because you claim, I presume, that the ——— isn't near enough.

General WARREN. No; it is not, but it is the minimum we think we can get along with this year. About 70 percent of it, as I mentioned, is ammunition only, because of the combat there. A lot of the excess that would become available in South Vietnam is not the ammunition that we need. There are a lot of problems like that.

Mr. HATHAWAY. To the extent that the excesses are isomorphic with the items that you are requiring in the ——— it would seem to me that then you could be subtracting some of those. If you are asking for 500 trucks in the ——— and we have 500 trucks in South Vietnam not being used, why can't the 500 trucks take their place and you could reduce whatever the expense for the 500 trucks is from the ———.

General WARREN. Yes, sir; I understand. We can and we do do that in many places but reprogram the money to where some of our other shortages are.

Mr. HATHAWAY. But we could do this though, couldn't we?

General WARREN. Yes.

Mr. HATHAWAY. So that you couldn't reprogram the money?

General WARREN. Yes, sir.

Mr. HATHAWAY. In other words, we could go over the excesses and the demands that come within the ——— and say we will give you the 500 excess trucks from South Vietnam to take the place of the 500 you are asking for in your Cambodian request, and save whatever amount of money that is, and just save it and not reallocate it at all?

Mr. CHAPMAN. May I speak to that? These trucks and this equipment is excess to the needs of our services because they need to be

rehabilitated and reworked. They are not in operating condition.

Mr. HATHAWAY. Not the ones that we are not using simply because we are withdrawing them.

Mr. CHAPMAN. Those are being absorbed by the South Vietnamese forces.

Mr. HATHAWAY. Why shouldn't that come out of the military assistance program for the South Vietnamese forces?

Mr. CHAPMAN. The program for Vietnam is funded in the Defense budget. It is not in this. All of the excess equipment coming from Vietnam is equipment that is battered, and requires reworking. Cambodia is one of the many countries that just doesn't have the equipment to rework. It is one reason why Cambodia and a good many of the countries cannot afford this excess.

General WARREN. May I make one point on this, sir. The reason that we don't reprogram money every time we throw in an excess item is that our program was developed this year, as it always is, to include our best estimate of what might be coming available from excess. We have already considered in each country program a reasonable ceiling on new obligational authority money, and an estimate which is in the document here, of how much excess we want that country to have. That is part of our program for next year, the excess on top of the NOA.

The excesses we speak of, when we come before you, are already programmed in an illustrative fashion within the congressional presentation document. It could change, and since we don't know exactly what we will have coming up, there will be a multitude of minor changes, but the ceilings listed on excess, as illustrative, are part of the program we would like a country to have this year.

EFFECT OF LEGISLATIVE CEILING ON USE OF EXCESS EQUIPMENT

Mr. HATHAWAY. You mean these figures in here, the total excesses would go over the $100 million limitation?

General WARREN. For this year, fiscal year 1971, we are already at $100 million. I have stopped all excess deliveries, and we have got 3 months to go. We have $200 million worth of equipments that I can't program out now because of that restriction. I don't know how long the Army and the services can pay storage charges, because they would like to get the items out of their yards, and if necessary junk them.

In addition to that, in the next 3 months we would estimate there will be another quarter of a billion dollars worth of excesses at acquisition value, released around the world, that we can't use, but for which we have valid requirements.

Mr. HATHAWAY. But you are going to give us for the record what you would do with the excesses, if we took the ceiling off?

General WARREN. Sir, if it is agreeable with you, I would give you for the record an illustrative assignment of that list that I passed out, which is just a partial list, sir, of the requirements that are available now for us.

(The information follows:)

ILLUSTRATIVE ASSIGNMENT OF AVAILABLE EXCESS DEFENSE ARTICLES

[As of Apr. 1, 1971]

Major items	Quantity available	Acquisition cost (millions)	Tentative country recipient
F–100 aircraft	97	$77.6	———
C–47 aircraft	18	1.7	———
T–33 aircraft	74	10.2	———
Light aircraft	744	37.2	———
M–48 tanks	699	75.8	———
105mm SP howitzers	30	4.5	———
Nike equipment sets	21	2.5	———
XM474 armored carriers	78	4.4	———
Trucks	589	3.7	———

Note: The above table is based on a partial list of available excess defense articles not already allocated.

FOREIGN MILITARY SALES CREDIT GUARANTIES

Mr. HATHAWAY. Let me ask you this: Is there any chance of switching over to an all guarantee program? I am a refugee from the Education and Labor Committee, and I was thinking of how we parcel out loans to students on a guaranteed loan basis, where we subsidize the interest rate, but the banks handle the actual loans, so that this isn't a debit against the budget except for the amount of the guarantee that we have to put up.

General WARREN. We are unable to obtain loans from most banking institutions for most of these countries, unless we can guarantee them.

Mr. HATHAWAY. You mentioned here on page 3:

> With respect to credit sales we are asking for $510 million in new obligational authority to carry out the program. That including the face value of guaranteed private credit we expect to total $582 million.

You have got $72 million in private credit. What I am asking is, couldn't you expand that so that we could reduce the amount that we have to actually appropriate?

General WARREN. It is our opinion that this is the maximum amount of private money that we can borrow, and that is why we list it in the program as new obligational authority, part of which is earmarked to guarantee the private loans. Most banks will not loan without a guarantee to the countries that we are concerned with. If we didn't have our own NOA to provide credit to different countries, we wouldn't have much of a program, sir. Your point would be well taken, if we could find banks that could do that, but we can't.

Mr. HATHAWAY. They wouldn't take the U.S. Government guarantee of the loan?

General WARREN. There are a lot of banks that don't want to deal with some of these countries, sir. That is the problem.

Mr. HATHAWAY. Even though we are going to stand for the loss?

General WARREN. This is true. One of the reasons, of course, is that a lot of countries need up to 10 years to repay and private banks usually do not go beyond a 5-year repayment term. Some of these countries are in sort of hot spots in the world and the banks are reluctant to get involved. Some of the countries in the Middle East area are examples.

Therefore, the only way we can offer them credit is from the NOA we are requesting from the Congress. Of course, that will be paid back to the United States with interest.

Mr. LONG. Will the gentleman yield?

Mr. HATHAWAY. Certainly.

Mr. LONG. It is not clear to me why the banks wouldn't take it even with a guarantee. I wouldn't think they would care who the country was as long as the United States is behind it. Are the banks basically opposed to making these loans because the guarantee is too hard to collect, because they encounter a lot of redtape before it becomes clear that the law requires us to pay the guarantee?

General WARREN. No, sir, I don't think so. It is just concern that these countries may go down.

Mr. LONG. What do the banks care if the Federal Government pays up the loan?

Mr. HATHAWAY. In effect, they are loaning the money to us.

General WARREN. There is one angle that I would like to put in this discussion. That is the fact that when we go to private credit, the interest rates that these banks will give us may be 2 or 3 percent above the cost of money to the Government, so when we approach country X saying, "Here is our proposal, you take $50 million from private resources at 8½ or 9 percent and the rest of it we will cover with NOA", this brings down the interest rate and the total payment.

I cannot answer, sir, why many of these banks don't want to deal with some of these countries.

Mr. LONG. I don't think your answer has been satisfactory. I hope you will have some research done on this and give us more specific answers.

General WARREN. We do have a man in our organization who seeks sources of private credit. Some banks have expressed interest, but many banks are reluctant to take on loans for military equipment.

Mr. LONG. You have said that, but you haven't explained why the banks are reluctant if the U.S. Treasury is guaranteeing the loans. Maybe you can come back with an explanation that makes some sense to us.

Mr. GOLDSTEIN. There seems to be some kind of a moral attitude about this.

Mr. LONG. That sounds vague to me. I haven't found banks to be that moral, to be quite frank. We have banks in this country that are lending on FHA mortgages that aren't worth 10 cents, and they are doing it because the Government is behind the mortgages. Maybe you can give us a good, solid explanation for that. What you have said so far just doesn't add up.

General WARREN. All I said so far is that the banks won't give us the credit. I don't know all of the details as to why, but I will provide something for the record.

Mr. LONG. There are probably some reasons. My guess is that it takes too long for the banks to get their money. They have to go through all sorts of red tape and have to deal with such questions as when the country defaulted.

General WARREN. I have talked to some of the bankers from Dallas, for example. They will only consider certain countries. Some of the countries, as I mentioned, no banks want to touch. In the case of Dallas

banks, they say they would be interested in a guaranteed loan involving some of the oil rich countries because they are tied in with them, but it is sort of a country-by-country problem with them. I will put something in the record, sir, that clarifies their reasons.

(The information follows:)

PRIVATE CREDIT FINANCING OF FOREIGN MILITARY SALES WITH DEFENSE GUARANTEES

Private banks and lending institutions cannot be relied upon at the present time to provide a substantial amount of credit financing for military export sales, even with Department of Defense guarantees, for the following basic reasons:

1. Some banks regard military export sales as being potentially a public relations problem with possible adverse impact on their depositors, stockholders, and foreign accounts.

2. Many banks resist large exposure to some less developed countries, and in some cases even reject outright loans to certain countries for various reasons.

3. Banks will not usually provide export credits for more than 5 years, and many will not finance for that long. Foreign military sales direct credit can be financed up to as much as 10 years after delivery of the defense article or service.

4. Some countries recently on grant aid, now being asked to purchase their defense material, are not economically capable of paying private lending rates particularly when such rates are especially high compared with normal "cost of money" to the U.S. Government rates otherwise available through direct FMS credit.

5. In the recent past when money was tight, private financing for military exports was not available under any circumstance unless exorbitant rates were charged, which was unacceptable to foreign buyers.

6. Many banks indicate that they will not provide funds for military sales solely on a "return of investment basis." They require for example, additional special conditions, such as "compensating balances," "floating rates," the right to establish branch or affiliate offices in the foreign countries, and special charges such as "commitment" fees, or perhaps a "management" fee when the bank has "lead bank" responsibilities. This make private bank financing more costly than direct FMS financing.

To rely on the private sector entirely for FMS credit funds would in effect give that sector a veto over the exercise of public policy. The President must not be put in the position of having his foreign policy hands tied by the necessity of getting concurrence from a bank in carrying out some course of action requiring FMS credit funds.

In summary, private participation has been limited despite continuous government efforts to encourage private credit "to the extent feasible."

Mr. HATHAWAY. Your bad loan record is very good, isn't it?

General WARREN. We haven't had any defaults in payments, sir, since the new Foreign Military Sales Act started our program.

FMS CREDIT REPAYMENTS GO TO U.S. TREASURY

Mr. HATHAWAY. How long has it been in existence?

General WARREN. Three years. It used to be handled out of the overall military assistance account as a revolving fund. We would loan money. They, when it came back in, would go back into the regular credit sales fund. It was difficult for the Congress to really scrutinize it so that is why it was abolished. We have a clean-cut program now that we can show you, and keep you posted on changes and financial status, any time anyone is interested.

Mr. HATHAWAY. That is my next question. There is no fund, in other words. The total amount of loans you are going to make this year are going to be the $510 million. There won't be any additional loans out of a fund from repayments.

General WARREN. No, sir. The $500-plus million is 1 year money and if we don't use it this year it automatically stays in the Treasury.

Mr. HATHAWAY. And the repayments just go back to the Treasury?

General WARREN. Yes, sir, all repayments.

THREAT TO REPUBLIC OF CHINA

Mr. HATHAWAY. This may take a long time and perhaps you can supply it for the record, but I read through these books, and although I think they are very good, there are still some questions I have as to details about the intelligence picture, for example, that prompts us to give and loan money to various countries, particularly Nationalist China. I am not too much impressed that there is a threat of an invasion by Red China. The same is true with the other statements that are made here that are very cryptic. Sometimes they say, "Well, in view of the Communist threat we ought to be putting money in here." You must have a more detailed analysis of just what the nature of the threat is.

General WARREN. Yes, sir. ———.

——— they do have the capability of air strikes ———. Our mutual defense treaty with the GRC and our strength in East Asia is a major deterrent to communist attack. The Republic of China is an important ally.

We have important air force activities located on Taiwan and must remain concerned about their being vulnerable to attack. Red China has ——— aircraft, strike types mostly, plus some interceptors, so that poses a threat to the country that prompts us to want to keep up their air defense as the first priority.

Our second priority is to build an adequate navy. ———. Thus we have a great interest in keeping the Republic of China well equipped, particularly in the navy and air. ———.

Mr. HATHAWAY. It seems to me that a lot of our military assistance program and perhaps a lot of our Defense budget as well is predicated upon the basis that since the other country is arming itself to the teeth we had better do it also. They may be doing it only because we are arming ourselves to the teeth. I think we suffer from mutual paranoia to some extent, absent any intelligence reports that are going to show me differently.

General WARREN. ———.

Mr. CHAPMAN. And Peking continues to take a position that Taiwan is part of China. ———.

Mr. HATHAWAY. You say it is very clear?

Mr. LONG. Doesn't Chiang Kai Shek take the same position with respect to the mainland?

Mr. CHAPMAN. We have never encouraged him in that direction.

Mr. HATHAWAY. You don't have to.

Mr. LONG. I am not sure that we haven't encouraged him.

Mr. CHAPMAN. The effort at maintaining the Republic of China to have enough defensive capability is to try to reduce the threshold at which our commitment would be called into being.

Mr. HATHAWAY. As I totaled this up, putting in about $1.3 billion, if you count the excess value as well, it seems to be an awful lot of

money to deter a threat that we have no intelligence basis to think exists. We know that they are capable of doing some damage to Nationalist China, but just because they are capable of doing it doesn't necessarily mean that we have to put in that much money. I presume if an effort such as that happened, something more would happen than just the Chinese Nationalists defending themselves. That would be such an event that it would probably draw us right into it.

Mr. CHAPMAN. As you recall, in 1958 they tried to take the offshore islands, and the Republic of China bore the brunt of the defense.

Mr. HATHAWAY. Matsu and Quemoy.

General WARREN. ———.

PROCEDURES FOR DETERMINING MAP AND FMS LEVELS

Mr. HATHAWAY. How were these credit sales evaluated as well as the military assistance. Do we just honor their demands? Without looking at the strategy of the situation.

General WARREN. No, sir. We receive through the Military Assistance Advisory Groups each year, and through foreign diplomatic representatives, various requests for projects that they think their country might be interested in. We take the requests, and then State and Defense work out an order of priority for these countries, as we study the particular items that they want to buy. State and Defense then approve or disapprove the requests and order of credit priorities.

With State Department, we try to program them in an order of priority.

Just running quickly down the list, sir, there are only about five or six big ones on here. This is on page 7 of that FMS Congressional Presentation Document. Most of them are for small amounts of vehicles or small arms or communications equipment. The ——— of Brazil, some ——— aircraft for Argentina and then of course Israel. ———.

Mr. HATHAWAY. Mostly for aircraft?

General WARREN. ———.

Mr. HATHAWAY. Suppose we considered they needed the money for M–16 rifles rather than aircraft, would we deny them the right to buy the aircraft?

General WARREN. Yes, sir. If any country wants to buy something and we don't agree ——— we won't even talk to them on it.

It has to be something that State and Defense agree the country should have.

Mr. CHAPMAN. Each credit program has to be justified from not only the military point of view, but also from the political and economic point of view. We try to judge the economic impact of the purchase on the country's economy.

This is reviewed in Defense and State and, finally, the Bureau of the Budget, now the OMB.

Mr. HATHAWAY. Do we know what the status is militarily of all the countries that receive our help?

Mr. CHAPMAN. Yes, sir. You mean the order of battle, or our program?

Mr. HATHAWAY. No. What they have now. How can you suggest money for 100 airplanes if you do not know how big their air force is already?

General WARREN. We have, through our MAAG activities, the necessary details on the inventories of the grant aid elements.

Mr. HATHAWAY. May we have that before us so we can compare it?

General WARREN. This would be quite a volume of material. In the presentation document, sir, it is listed under the "Force Data."

Mr. HATHAWAY. That is how much we are giving them now, is it not?

General WARREN. No. For example, on page 40, for ——— we list their units, and then at the top of the page in the right-hand column we list the personnel strength of the various organizations for that country.

Mr. HATHAWAY. This will conclude my questioning for the time being.

You will supply more detailed intelligence on this, or should I go through each country, one at a time?

General WARREN. I would be happy to supply anything you want, but I do not quite know what you mean by additional intelligence. On each country?

Mr. HATHAWAY. No. The basis for giving China as much as we are giving China, what intelligence we have to indicate that Peking has any ambition to take over.

General WARREN. We do not have any intelligence like that, sir. Our program for this next year is ———. It is a relatively small program———.

The excess material that is listed is an estimate, and it is at legal value. The legal value is ———.

I would be pleased to get you a detailed threat analysis which, as you point out, has a bearing on our forward defense countries. Would that be all right? Those are the ones that really count, let us say the 10 countries over $5 million in MAP.

Mr. HATHAWAY. All right. That will be very helpful. Thank you very much.

(The information was submitted to the committee.)

Mr. ROYBAL. Mr. Galifianakis.

MILITARY SALES TO JAPAN

Mr. GALIFIANAKIS. You said earlier that Japan was a stabilizing influence in the whole Indochinese situation.

Mr. CHAPMAN. In Asia, in the Pacific.

Mr. GALIFIANAKIS. What would you forecast as Japan's reaction if we basically withdrew, say, by the end of this year on an unannounced basis? Suppose that confidentially the military and the administration and the Congress determined that we were just going to end our involvement in South Vietnam, what would be the reaction of Japan?

Mr. CHAPMAN. If Japan felt we were withdrawing from our commitments throughout Asia, they might well reconsider their own security arrangements. An end to the Vietnam war, however, would be widely welcomed in Japan.

Mr. GALIFIANAKIS. Do we give any arms assistance to Japan?

Mr. CHAPMAN. No.

Mr. GALIFIANAKIS. We are precluded from doing that, are we not?

Mr. CHAPMAN. We have a large sales program. They are buying a substantial amount from the United States.

Mr. GALIFIANAKIS. How much? It is a confusing problem, because on the one hand we have precluded them from building up militaristically because it was part of the agreement after World War II. You hear that Japan does not have an army, navy, and air force on the one hand; and then you read that they have a very effective striking capability. It is a very confusing thing to figure out the overall policy.

We have heard cliches like Asia for the Asians, and let the Asians defend that part of the hemisphere. I am trying to bring these facts together and figure out how consistent our policy and performance are.

General WARREN. May I comment on that? Japan, of course, is strictly a sales country. In years past, after the war, we gave her approximately $855 million of grant aid and other assistance.

However, for next year, the only thing we are estimating for Japan is cash sales of ——— and commercial sales where Japan deals directly with our industry. Of course, State controls these sales through export licenses. The commercial sales are estimated at ———.

We have a program with Japan for the future coproduction of the F–4 Phantom, under which slightly over ——— will be produced. She is now building the F–104's, including the engines, under coproduction. I understand they are doing a really fine job.

Japan does have a substantial military force. However, her policy has been one of defense only. For example, Japan has no long-range ships or aircraft or refueling capability, and no known intentions of acquiring them. ———.

That is just my personal opinion from talking to people over there.

JAPANESE CAPABILITY TO PROVIDE ECONOMIC ASSISTANCE

Mr. GALIFIANAKIS. Do you think we are now groping for a strong military alliance with Japan in the hope that Japan will be the guardian of freedom in that part of the world?

Mr. CHAPMAN. I do not think that is the view. We would like to have Japan able to take care of its own defense. It is increasing its defense capability. I do not think it has in mind any offensive capabilities. It has the potential for developing nuclear power if it so decided. We have been encouraging Japan to provide more economic assistance throughout the area. Year by year, they are doing so.

Japan has the third largest GNP in the world now. It has experienced a remarkable growth over the last 15 years. It has been a stable country.

If Japan had been wreaked by some of the upheaval that other countries in the area have experienced in the past 20 years, it would be in a difficult position.

Mr. GALIFIANAKIS. It has had a phenomenal and fantastic growth. It is almost an economic miracle that they have been able to come out of ashes and become the third largest industrial power in the world.

Nobody really knows where they rank in banking, which of course means money. They are very strong in the international field.

It seems to me as this development has been occurring in Japan, questions have begun to be raised about why isn't there a greater participation on the part of a strong and powerful country like Japan

to assume the responsibilities that apparently the United States has been carrying ever since the conquest of Japan.

Mr. CHAPMAN. We have been seeking to encourage them to provide more aid, ———. They have not been encouraged to get into a military assistance relationship.

Mr. GALIFIANAKIS. You have encouraged them to get into military assistance?

Mr. CHAPMAN. No, we have not. We have encouraged them to get into economic assistance. They are contributing more, year by year.

Mr. GALIFIANAKIS. At the same time creating difficulties for the United States.

I happen to come from a textile part of the country. That is on the economic side, and there is no need to commingle that problem, except that from my vantage point, it is a very real problem. I have to confess that I look at my district and my State in considering this problem.

Do you consider that Japan will be our principal far eastern ally in the future?

Mr. CHAPMAN. It has been a major ally the last 20 years.

Mr. GALIFIANAKAS. I am talking about for military purposes.

Mr. CHAPMAN. We have a security treaty with Japan.

Mr. GALIFIANAKIS. Is it that treaty which has precluded their build-up except for defensive purposes?

Mr. CHAPMAN. It does not preclude it, ———.

Mr. GALIFIANAKIS. Will we be dealing with Japan more on a sales basis?

General WARREN. Yes, sir. They are strictly sales now, and have been for some time. They are one of our larger buyers.

CAMBODIA'S NEW GOVERNMENT

Mr. GALIFIANAKIS. About a year ago, when the President announced his Cambodian maneuver, it then became apparent that we were dealing with a new government and, except for the name Lon Nol, which I had never heard before, I do not know how we suddenly are dealing with a government that is asking for our help. How does that come about? Do you already have a relationship? Do you already know? For the moment, Lon Nol symbolically is the Government of Cambodia. He is asking for assistance. He wants assistance in x number of dollars and x amounts of equipment.

It happens so fast and so puzzling and so startling, I cannot determine how our Government can determine that another government is seeking assistance when, in fact, I do not know who the government is.

How do you check out the Lon Nols and their demands? Can you just illuminate that a little bit, because that is a complete fog.

I also happen to come from an area that has a very large academic community. I have the privilege of appearing before professorial groups, especially historians and political scientists. They raise fundamental questions. What is our Government doing creating governments, calling them governments, and saying they are seeking our assistance? I cannot answer those questions.

Mr. CHAPMAN. We did not create the Lon Nol government. The overthrow of Sihanouk last April took everyone by surprise. It was not expected, even within Cambodia.

The main test of a government is that it is there in the main house and that the people respond to that government.

Mr. GALIFIANAKIS. Our Government had very little intelligence on Lon Nol before?

Mr. CHAPMAN. Lon Nol had been very close to Sihanouk, and we had known him for a good many years.

Mr. GALIFIANAKIS. He is the government now?

Mr. CHAPMAN. He is the Prime Minister under a parliamentary system, an office in which he was installed August 12, 1969, long before Prince Sihanouk was replaced as Chief of State. Lon Nol had been acting Prime Minister from December 1968, and prior to that was Prime Minister from November 1966 to April 1967, when he resigned for reasons of health. Lon Nol has been in the upper ranks of the Cambodian Government for many years, beginning in 1955 when he was minister of defense, under Sihanouk. He and many of the other Cabinet ministers have been well-known to us for some time—it is a small society. Now, the man who replaced Sihanouk as Chief of State, Cheng Heng, took that position under the Cambodian Constitution, since he had been Chairman of the National Assembly who is surrogate to the Chief of State in the latter's absence—and, in fact, Sihanouk himself, before he left the country on January 6, 1970, installed Cheng Heng in office as acting Chief of State. The Cambodian Parliament replaced Sihanouk and installed Cheng Heng as permanent Chief of State.

Mr. GALIFIANAKIS. Tell us a little something about the mechanics of how we get involved. I am aware of the mechanics of the announcement of the President and his statement of the Cambodian operations as a military necessity, but tell me a little bit how we get into these relationships. Who suddenly makes the request for assistance, and how do the dollar amounts come out? I look here and I see a dollar amount, and I say that is very good and I am impressed by the explanations, but I would like to know something about the inception of it so I can have some comprehension about justifying x millions of dollars.

Mr. CHAPMAN. Sihanouk broke relations with the United States in 1965, but in mid-1969 we resumed relations at the chargé level by mutual agreement, of course, but for the most part at Sihanouk's initiative.

When the fall occurred, we had a chargé there. The first request for aid came through him.

U.S. RESPONSE TO CAMBODIA'S REQUEST

Let me take that back. Lon Nol in fact asked for assistance from all countries, including the Soviet Union, in April.

Mr. GALIFIANAKIS. Was it in a specified amount, or just a general "help me"?

Mr. CHAPMAN. Just a general 'help me." They had somewhat over a 30,000-man army, mostly untrained and undermanned. We had reports that the North Vietnamese were making a major effort in Cambodia. Decisions had to be made.

Mr. GALIFIANAKIS. We really dominate in those situations, don't we? Don't we really determine the type and amount of aid?

General WARREN. May I comment just a second, because I was over there talking to General Abrams not long ago. The way this Laos and

Cambodian thing generates into military hardware is largely related to the war. The whole conflict in Southeast Asia is intermeshed. Communist supply lines, depots, and so on are in Laos and Cambodia, right next door to Saigon.

We took action to destroy some of the lines of supply and the enemy troops and the various things they had in storage in both Laos and Cambodia, to preclude their ability to launch a major sustained attack.

Matters pertaining to U.S. activities go from our headquarters in Saigon through the country team and the Ambassador in the case of Laos. I spent a morning with him just a few weeks ago. He, in turn, clears it with the Government there.

The plans which have been approved have been designed to protect our own forces and our troop withdrawals from Vietnam. The actual military assistance programs for both Cambodia and Laos, which I have in detail as far as hardware goes, are always changing.

U.S. actions were based on our own interests; but in the recent actions in Cambodia and Loas, they took different shape; that is, military assistance in both cases, but no ground combat forces in Laos.

Mr. GALIFIANAKIS. That was all prompted by military order of battle and military necessity to act then and there. When you put the figures down here, how is that determined?

General WARREN. It is determined, first, by the threat, which is a sort of vague thing; but, second, by exactly what arms they need.

Mr. GALIFIANAKIS. Basically, I think it is our judgment.

General WARREN. It is ours in coordination with the country concerned.

Mr. GALIFIANAKIS. Is it predominantly ours?

Mr. CHAPMAN. The Cambodians did provide us a list of what they needed. We did not know very much about their situation. We negotiated what we could provide them.

Mr. GALIFIANAKIS. Did they ask for aircraft, for example?

Mr. CHAPMAN. Some replacements.

Mr. GALIFIANAKIS. They asked for aircraft and pilots?

Mr. CHAPMAN. They had a small air force, old T–28's that we had provided even before 1965. They had French, American, and Soviet and Chinese equipment.

Mr. GALIFIANAKIS. What did they ask for? What was the initial Cambodia list, in a general way?

General WARREN. The No. 1 priority was for airplanes when I was over there, replacements for the T–28's that Mr. Chapman mentioned. The Ambassador told me that. The rest of it, of course, is weapons, ammunition, communications equipment, and vehicles. That is about it.

Mr. GALIFIANAKIS. I should not prolong this.

Mr. ROYBAL. You take all the time you want to take.

Mr. CHAPMAN. One question was not answered. How do we judge this, Government to Government?

I think it is worth noting that the Soviet Union and all the Eastern European countries that had diplomatic relations with Cambodia at the beginning of the year have kept their Ambassadors in Phnom Penh, for they, too, have recognized that the Lon Nol government is the bona fide Government of Cambodia.

Mr. GALIFIANAKIS. They are still there?

Mr. CHAPMAN. Yes. Only North Vietnam and Communist China withdrew their representation.

Mr. GALIFIANAKIS. Do we know what the Lon Nol government has purchased in equipment from Russia, for example?

Mr. CHAPMAN. No. They asked for help from everywhere.

Mr. GALIFIANAKIS. I will not prolong it. I am looking forward to a briefing that I hope I get, because many of these fundamental questions could best be responded to in a briefing. I do not want to take further time of the committee.

Mr. ROYBAL. Mr. McEwen?

Mr. MCEWEN. I have no questions, Mr. Chairman.

SAVINGS RESULTING FROM U.S. TROOP WITHDRAWAL FROM KOREA

Mr. ROYBAL. I would like to go back to Korea for just a moment, if we may, General Warren. You have stated the overall savings to the United States will be great, and you made reference to the fact that the Nixon Doctrine is being implemented in Korea.

General WARREN. Yes, sir.

Mr. ROYBAL. Will you be more specific as to what savings will accrue as a result of this program?

General WARREN. The initial savings that will accrue due to the pullout of our 20,000 troops this year probably will not be so great, but there will be recurring savings from here on.

I think Mr. Laird estimated that U.S. defense expenditures in Korea would come down over a 5-year period by a total of about $500 million in net savings. Our MAP request is for ——— in fiscal year 1972.

Mr. ROYBAL. In order to put into effect your 5-year program you will be spending in the neighborhood of ———, is that correct?

General WARREN. Over 5 years, roughly, except, sir, it is a package, and all of it may not be NOA.

Mr. CHAPMAN. There will be a minimum of ——— in excess defense articles against that.

Mr. ROYBAL. Is that to be put up by the Korean Government?

Mr. CHAPMAN. No, by our Government, against the ——— there would be a minimum of ——— in excess defense articles.

Mr. ROYBAL. Just for Korea alone?

Mr. CHAPMAN. For Korea alone.

General WARREN. Sir, may I give a more accurate figure on the Korean situation. I have here the withdrawal plan showing estimated savings of $185 million in the first year, and between $216 million and $235 million in the 4 succeeding years. This would constitute a 5-year net saving of something like half a billion dollars. In other words, even after you apply the projected MAP expenditure, the half billion dollars would be the net savings resulting from not having our troops in Korea.

KOREAN SELF-SUFFICIENCY

Mr. ROYBAL. Is it not true that we do not see any possibility in the near, foreseeable future that Korea will be self-sustaining militarily?

General WARREN. That is correct, she will not be for a long time, sir.

Mr. ROYBAL. That would mean, then, that the United States will have to continue to subsidize her armed forces.

General WARREN. We will have to continue to subsidize her armed forces for the foreseeable future. We hope other countries would get in and help us. That is correct.

Mr. ROYBAL. But at the present time there is no indication that there will be a multilateral attempt to supply the needs of the Korean Army?

General WARREN. No, sir. It is basically United States, although as Mr. Chapman mentioned, we have encouraged Japan to increase assistance in the economic area. We hope they will. Basically, the United States must pay for this over the next years if we are to have a reasonably modern Korean force.

Mr. ROYBAL. I hope we do not see the time when we can look back to our investment in Korea and compare that with our investment in the Chinese Republic. There has been a great deal of criticism of the amount of money that has been spent in China. Most of it, according to some critics, has not been well spent, but has gone into the pockets of the already rich in the Republic of China.

SUPERVISION AND DISPOSITION OF MAP EQUIPMENT

Is there any guarantee that we will continue to audit, to look very closely at the way equipment is being used, how the money is being spent?

General WARREN. Yes, sir.

Mr. ROYBAL. What is our mechanism to guarantee that that takes place?

General WARREN. Our mechanism, sir, is our Military Assistance Advisory Group. There is one such group in China, for example, since you mentioned it, numbering 241 personnel. One of their primary missions is to supervise the use and end item disposition of all of the equipments the United States has furnished China. That means China cannot sell to anyone else or dispose of this equipment without U.S. approval.

Mr. ROYBAL. Is it true that a lot of the equipment that we made available to China just deteriorated without any use at all?

General WARREN. Not to my knowledge; no, sir. Her army is equipped with rather obsolete small arms, but it is a real good army. All of her forces are well trained and well disciplined.

DISPOSAL OF EXCESS EQUIPMENT NO LONGER NEEDED

Mr. ROYBAL. What happens to the obsolete or excess equipment that China or Korea would have? How is that disposed of?

General WARREN. You mean when China or Korea are through with it?

Mr. ROYBAL. Yes, sir.

General WARREN. Our MAAG would inspect it and determine whether it is usable, or should be junked. If it is usable equipment, it is reported to us for possible redistribution to other MAP countries against any outstanding requirements. If there are no grant aid requirements, then it may be sold.

Mr. ROYBAL. If it is resold, it is sold to whom?

General WARREN. It may be sold to any of the countries on the approved list which I have for sales. For instance, there are about 84 countries that are eligible to buy from the United States. Of course, it could be redistributed to some countries eligible for military grant aid if there is a valid grant requirement.

Mr. ROYBAL. Will that amount then come under the congressional limitation, if there happens to be one at that particular time? If, for instance, China had something to sell today and we were able to agree to its sale, would that come under the $100 million congressional limitation?

General WARREN. I understand. If it was a sale, no, sir. I understand your point. If we wanted to give it to another country, it would come under that $100 million ceiling, except for the material that MAP has already paid for.

Mr. ROYBAL. But it would not if it were a sale?

General WARREN. That is correct. Sales are not involved.

Mr. ROYBAL. They are not involved, not only in China but with any other country?

General WARREN. No, sir. But we do have one major problem discussed here yesterday a bit. We have ceilings imposed on us in Latin America of $75 million total, sales and grants materiel. We are losing about $500 million in sales in the last year and a half because of that ceiling and because of other restrictions in the law on sales, which is not pertinent to China, but that is our only sales problem area I am aware of.

EFFECT OF LIMITATIONS ON USE OF EXCESS EQUIPMENT

Mr. ROYBAL. Then at the present time, you have in excess materials in the neighborhood of $200 million, is that correct?

General WARREN. Yes, sir. I had a partial list of the items that are available that we are holding up because we are right at the $100 million ceiling, and we cannot transfer any of those items.

Mr. ROYBAL. But these items are all usable at the present time?

General WARREN. Yes, sir; they are either usable or usable if rehabilitated. Our armed services inspect each of those before they offer them to us. If it is completely out of commission and costs too much to fix, they junk it right there. So, the only things they give us are equipments which can be rehabilitated at a reasonable cost and have a considerable amount of utility left.

Mr. ROYBAL. And that amounts to $200 million, approximately?

General WARREN. We happen to have a little over $200 million worth of equipment that has already been offered to MAP by the services that we cannot release today.

Mr. ROYBAL. If you cannot release it, then it becomes classified in the junk category?

General WARREN. At some point in the future it would, sir. At the moment, we have asked the services to hang onto the equipment that matches our MAP requirements, as long as they possibly can, at least until the end of the fiscal year or until we know what kind of ceiling we might have for next year.

If we receive a $100 million ceiling next year, then our whole long supply and excess program is practically ruined, and we would junk much equipment.

Mr. ROYBAL. That would mean, then, that the 744 aircraft, the tanks that you may have, and other equipment, would then become junk?

General WARREN. Unless somebody who is eligible wanted to buy it.

Mr. ROYBAL. Would that mean, then, that they would be demolished?

General WARREN. They would be demilitarized. Each category of equipment is handled differently.

Mr. ROYBAL. What is the difference between demilitarized and demolished?

General WARREN. If you demilitarize, you take the lethal part out or make it so it does not work, without destroying the residual value of the metal or what not. In the case of a ship hull, for example, it could be used for scrap steel.

Mr. ROYBAL. It could not be rebuilt?

General WARREN. It would be prohibitively costly. It could be rebuilt, but nobody has the money to do it unless we can pick it up in the MAP program.

DISPOSITION OF UNUSABLE EXCESSES

Mr. ROYBAL. Trucks, jeeps, and so forth, need not necessarily be sold to a government. They can be sold to individuals. Is that not correct?

General WARREN. Yes, sir. After we have been assured that our Armed Forces, first, then all Government agencies have no requirements, then, individuals are eligible to buy trucks, jeeps, and certain other specified items.

Mr. ROYBAL. According to this example Turkey would have ——— trucks and trailers.

General WARREN. Yes, sir.

Mr. ROYBAL. If the Turkish Government were not to get it——

General WARREN. Sir, may I point out the list you are looking at now is a sample list of equipments we have already allocated this year under the $100 million ceiling, and those items you just mentioned have already been programed for Turkey.

Mr. ROYBAL. Right. But let us suppose that they were not programed to be purchased by the Turkish Government, that they were made available to individuals, as can be the case. Is it possible that these trucks and trailers would eventually end up in the hands of farmers in Turkey who are now growing the poppy and sending it back to the United States as dope? Is there a possibility that that would happen?

General WARREN. I believe so. In the case of a nonlethal military item which actually has a commercial counterpart, like a truck, is sold to a civilian, I am not aware of restrictions on what the buyer does with it. I do not think there are any.

Mr. CHAPMAN. Most of these trucks are not in shape to be bought by civilians in Turkey, for instance, where they have a very serious foreign exchange problem. That is why the grant aid remains so high.

Mr. ROYBAL. I visited Turkey some time back. Of course, this was 2 or 3 years ago. I was told that American-made vehicles are being used on some of these poppy farms.

General WARREN. I am sure that is true, because in Europe our disposal offices, particularly up in Central Europe, have sold many items of excess, and this includes a lot of nonmilitary or nonlethal things that governments or civilians can buy from the disposal yards.

The only ones that do not have to be junked or demilitarized are things like trucks or trailers or jeeps, for example. So, it is possible they were purchased in Europe from a disposal yard.

Mr. ROYBAL. It seems to me if all of this equipment were made available only to governments, we may be able to reach an agreement with the Turkish Government that they do not produce the poppy in return for trailers and our jeeps. Narcotics are creating a tremendous problem in this country, and I think the more money we put into Turkey, the more production of the poppy will take place, the more narcotics will come into the United States and the more danger our youth in this country will be in.

General WARREN. Yes; this would be possible. It would involve the State Department and, I imagine, the Ambassador.

———.

Mr. ROYBAL. That is probably something to take up with the Secretary of State, but it is a matter of great concern, particularly among certain groups in the United States. Those who are fighting narcotics always look to Turkey as the culprit. Many believe that we are responsible for the importation of narcotics since we are aiding that country militarily giving them economic aid, and also supplying their farmers with trucks and trailers.

EXCESS MATERIEL PROVIDED TO GREECE

May I also inquire with regard to excess materials that are being made available to Greece.

General WARREN. Yes, sir; we have provided Greece with substantial amounts of excess materials. I have the figures right here.

Our excess program in 1971 was $46 million at acquisition value. We are guessing for the next year, if we do not have the ceiling, then we might have ——— excess at acquisition cost.

Mr. ROYBAL. Can you tell me how much of that went to the previous regime in Greece?

General WARREN. Yes, sir. The program to date, from 1950 through 1970, is $1.5 billion in grant aid, $246 million acquisition cost of excess. I do not know, sir, if you were here earlier when I gave the brief history of why we had such a large excess program in fiscal year 1970. When our grant aid funds were cut, we had a major drive to take advantage of as much excess materiel as we could in our MAP program. The drive was very successful. That is why this figure for Greece ——— acquisition value this next year.

Mr. ROYBAL. Is it not really because we support this government more than we did the last?

General WARREN. That is essentially correct. It is because Greece is a member of NATO and the United States, of course is committed to support NATO. We are and we have had a military assistance program every year over the past 20 odd years. For a while we did not deliver a number of major items because of the coup in Greece, but they were released this year.

It was costing us as much as $700,000 annually to store, and we were not gaining much friendship from the Greeks by holding up deliveries. They are now being delivered.

U.S. RELATIONS WITH GREEK GOVERNMENT

Mr. CHAPMAN. We are not supporting this government more than we were the previous one. It has been recognized this government is in power and that Greece is a member of NATO that is covering an important area of the Mediterranean and that the best posture we can take vis-a-vis this government to try to influence it back to a constitutional basis is by maintaining relations. If we were to cut off all aid and take harsh, public positions, our judgment is that there are elements within the Greek military that would take an even harder line than the present regime and we would have very little influence—we lose all influence over the present regime as to trying to persuade them to get back to a constitutional basis.

RECIPIENT COUNTRIES' ATTITUDES TOWARD THE UNITED STATES

Mr. ROYBAL. Our success in influencing countries to come back to a constitutional basis hasn't been very good, has it?

Mr. CHAPMAN. It is limited.

Mr. ROYBAL. And I think we have had quite an experience in Latin America, for one, and various countries of the world, so we haven't been very successful and I don't think increasing the amount of money made available to these countries is going to influence them one way or the other.

That I judge by the mere fact that some of the countries that we have been helping for many years actually generate the most anti-American sentiments one can find any place in the world. One of the countries that I have in mind is Turkey.

Mr. CHAPMAN. Well, in Turkey you can't generalize from small radical groups the feeling of the country as a whole. By and large Turkey remains a very close ally of the United States, but there is a radical wing, a violence wing.

Mr. ROYBAL. We can say the same thing about other countries that are our allies and are sending some of our goods to North Vietnam. They are still our allies and it doesn't really mean they are 100 percent for us. I don't doubt that Turkey is in favor of our continuing our support. I can understand the strategic location of that country with regard to the defense of that particular area; I think I can understand that very well, but I also feel that the money that is being spent there is not making any more friends than one would get in countries where we spend even less.

Mr. CHAPMAN. But the issue there is whether those two countries, Greece and Turkey, will remain NATO allies and help maintain some stability in the Mediterranean.

Mr. ROYBAL. They may be more pro-NATO than they are pro-United States.

General WARREN. I got the impression when I was over there that they are sort of anti-all foreigners and not the United States in particular. I don't know.

Mr. ROYBAL. I got the same impression, but I thought the United States was the leader in that particular field.

REDUCTION OF THE MILITARY ASSISTANCE PROGRAM

General WARREN. Sir, may I make a comment on the matter you mentioned regarding the success of the MAP, or lack thereof?

In 1962 we had 52 countries receiving grant aid materiel from us and in fiscal year 1970 that number was down to 24. We feel a reduction of 28 over 8 years is certainly an indication of success in the grant aid program. Our ultimate goal is to phase them all out if we can, although it doesn't look like we can for a while. Comparing the fiscal year 1962 program with that of fiscal year 1972, we are down to 13 countries now receiving materiel grant aid. I think this is quite a good success story. The best examples are Japan, which is self-sufficient but did receive massive amounts of military aid from us and, of course, all of the Western European countries which are now self-sufficient. I believe we gave them something like $12 billion—$12.3 billion. We gave the NATO countries of Western Europe that money, and since they became self-sufficient they have purchased $6.2 billion in defense articles from the United States. We have made progress in some areas.

IMPORTANCE OF SPANISH BASES

Mr. ROYBAL. Will you explain to me why it is so important that we keep bases in Spain?

General WARREN. It is important to us because, for example, these bases, provide landing sites for our aircraft en route to the Mediterranean area from the United States. It is also a very strategic country from a naval standpoint. Rota, the naval base in Spain, is an extremely important and key base to us because, among other things, our nuclear submarines operate out of there and if we didn't have that base, I believe they would have to go back to Norfolk, or to a base up in Scotland. ———. Furthermore, Spain is a key terminal for our military airlift command operations through there. ———.

Mr. ROYBAL. Will you be able to give us the figures as to the cost for the operation of Rota and the air bases?

General WARREN. Yes, sir.

Mr. ROYBAL. Put it in the record.

(The information follows:)

With reference to operating and maintenance costs, DOD accounting records are not maintained to reflect total costs on an area or facility basis. We estimate, however, that fiscal year 1970 operating costs in Spain ran about $90 million.

Mr. ROYBAL. Are there any other questions?

MAP FOR NATO COUNTRIES

Mr. GALIFIANAKIS. If a country is a member of NATO, is that considered in providing grant assistance?

General WARREN. Membership in NATO would be one consideration in arriving at a decision about providing grant assistance or sales to a country that is considered less developed. I have the list here of

the NATO countries that are classified as lesser developed countries and are specifically authorized grant U.S. aid. State and Defense jointly prepare the list of authorized countries.

ROLE OF THE EXPORT-IMPORT BANK

Those in Europe can only use the Export-Import Bank. The Export-Import Bank is not authorized to finance underdeveloped countries. However, our foreign military sales credit is designed to do that. Some NATO countries are eligible for grant: most of them are not.

Mr. GALIFIANAKIS. You take cognizance of the whole interest, whether this income comes from exporting and so forth?

General WARREN. By agreement, we participate in the planning of their funds and the Secretary of Defense, in coordination with the Secretary of State and Secretary of the Treasury, sends the president of the Export-Import Bank each year a list of the recommended countries and amounts, and the Export-Import Bank is doing as we have requested. I have a list of them here.

Mr. GALIFIANAKIS. Does the Under Secretary of State or Defense participate in giving approval of loans that are made by the Export-Import Bank for military purposes?

Mr. CHAPMAN. Yes.

Mr. ROYBAL. We thank you very much, gentlemen. The committee will adjourn until 1 o'clock on Monday.

MONDAY, MARCH 29, 1971.

Mr. PASSMAN. The committee will come to order. We shall continue our examination of the military assistance program for fiscal year 1972.

I shall now yield to the distinguished ranking minority member, Mr. Shriver of Kansas.

Mr. SHRIVER. Thank you, Mr. Chairman.

SUMMARY CONGRESSIONAL PRESENTATION DOCUMENT

General Warren, at the beginning of your statement you mentioned a summary document which will contain all three of the elements of the international security assistance program, plus the spigot table which lists all foreign assistance.

What will be included in this table?

General WARREN. That will be a summary of our military assistance program for 1972, of our foreign military sales, and the supporting assistance program which has been renamed.

Mr. CHAPMAN. Economic supporting assistance.

General WARREN. The State Department economic program, excess defense articles and Public Law 480 will all be in one document which the State Department is putting together.

Mr. SHRIVER. When will that be available to the committee?

Mr. CHAPMAN. Probably another 2 weeks.

INTERNATIONAL SECURITY ASSISTANCE LEGISLATION

Mr. PASSMAN. I have been urging these people since January to give us some general idea as to what this new so-called foreign aid pro-

gram will include. They don't know themselves. I have talked to several agencies and I haven't found anybody yet who knows anything about what they are going to do. Do you know?

Mr. CHAPMAN. Yes, sir.

Mr. PASSMAN. When will it come up?

Mr. CHAPMAN. The legislation is in last draft.

Mr. PASSMAN. But it hasn't been finalized?

Mr. CHAPMAN. That is right.

Mr. PASSMAN. And you don't really know when it is coming up and 3 months of the year have gone by already. I am not criticizing you but it seems they don't really know what they want to do. They are still undecided as to whether to ask for a year extension under the act or come up with this new package.

Please urge them to make up their minds as to what they are going to do because Mr. Shriver and I are getting a little impatient because we are trying to bring out an appropriation bill.

Thank you, Mr. Shriver.

MILITARY ASSISTANCE NEEDS OF SOUTH KOREA AND CAMBODIA

Mr. SHRIVER. Since they account for a great deal of money you are requesting, would you tell us the general military status and needs of South Korea and Cambodia?

General WARREN. Sir, in the case of South Korea, we have been working with the South Korean Government, to prepare a 5-year program which would cost around ——— to modernize South Korea's Armed Forces. If we are fortunate enough to secure the money for 1972, 1973, 1974, and 1975, I am confident they will have reasonable modern forces.

Last year, when you approved the supplemental appropriations, was the first year of the modernization program that we are in right now, sir.

With regard to Cambodia, the situation is quite fluid. However, I have for Cambodia, a very detailed program, not a hit or a miss type thing. Just to illustrate, we have listed by line item everything that is programed into Cambodia for 1970, 1971, and 1972, and the fiscal year 1972 part of it comes to ———, sir. I have additional details, if you would like.

In the 1970 program—and it was late in fiscal 1970 when the North Vietnamese invaded Cambodia, and we took emergency action at that time and provided $8.9 million to get a program started. Then, after a Presidential Determination, we reprogramed within our fiscal year 1971 MAP program, and obtained supplemental appropriations for a total of $185 million for Cambodia. Now we are requesting ——— for the fiscal 1972 program, the great bulk of which is for ammunition, sir.

REDUCTION IN U.S. PERSONNEL IN THE PHILIPPINES

Mr. SHRIVER. What is the status and the speculation concerning the reduction of American personnel from the Philippines?

General WARREN. We have reduced American personnel in the Philippines by approximately 25 percent, I believe, sir. This reduction

will have the effect of reducing the number of dependents and families that had been living in areas adjacent to Clark Air Force Base and, in turn, the number of incidents and difficulties with the local people. It is approximately a 25-percent reduction.

Mr. CHAPMAN. About 6,000 and something is the figure.

General WARREN. We had over there about 26,900, as of March 1970. The reductions total 6,000 servicemen by 30 June 1971. This will also affect about 3,000 to 5,000 of the total 16,000 direct local hire Philippine people. It will also reduce the number of dependents over there.

U.S. PERSONNEL IN TURKEY

Mr. SHRIVER. How many U.S. military personnel are now engaged or stationed in Turkey?

General WARREN. As of June 30 last year, 6,681 military in Turkey, 373 civilian, 6,191 dependents for a total of 13,245. They are being further reduced this year, sir.

Mr. SHRIVER. Are there plans to withdraw these troops because of the continued large military assistance program there?

General WARREN. No, sir. The withdrawal was not related in any way to that. The withdrawal was caused by a combination of things. First of all, we cut our forces worldwide in most countries, under a presidential directive, about 15 to 20 percent. Certain countries are excluded from that cut but Turkey was not one of them. It was part of a general program to reduce U.S. personnel and involvement worldwide, sir.

U.S. PERSONNEL IN JORDAN

Mr. SHRIVER. You are requesting ——— for Jordan. Are there any U.S. military advisers or other personnel in that country in connection with this program?

General WARREN. Sir, we have a small number of personnel in Jordan.

Mr. SHRIVER. Military advisers?

General WARREN. Yes, sir. We have 14 advisory personnel authorized for Jordan. They are an augmentation to the Defense Attaché Office.

ASSISTANCE TO JORDAN FROM OTHER COUNTRIES

Mr. SHRIVER. You mention that Jordan is receiving less financial support from other Arab countries.

General WARREN. Yes, sir.

Mr. SHRIVER. Could you give us a comparative dollar figure on this input? Tell us which Arab countries have reduced this aid.

General WARREN. Sir, I do not have the dollar figures. May I provide them for the record if they are available?

Mr. SHRIVER. Yes.

(The information follows.)

ARAB COUNTRIES ASSISTANCE TO JORDAN

Prior to the 1970 crisis Jordan received subsidies from Kuwait, Libya and Saudi Arabia totaling approximately $105 million annually. Following the crisis, Libya suspended its subsidy of approximately $25 million permanently. Kuwait has suspended five monthly payments so far out of an annual subsidy of approximately $40 million.

MAP TO JORDAN

General WARREN. For the most part a dissident element, the Fedayeen, was the group causing the difficulty for Jordan. As a result of her economic problems, which were caused both by that war and the military action over a period of time, as well as the reduction of income from other Arab countries, the United States agrees that her economic situation is such that some grant aid and credit availability is necessary. The United States would like to ———. That is the reason we are proposing a grant aid program for Jordan in fiscal year 1972.

LIFTING OF SUSPENSION ON DELIVERIES TO GREECE

Mr. SHRIVER. Has the embargo on military equipment shipments to Greece been lifted completely now?

General WARREN. Yes, sir; it has.

U.S. OIL PROCUREMENT IN SAUDI ARABIA

Mr. SHRIVER. On page 8 of your statement you say American oil companies earn well over half a billion dollars per year from operations in Saudi Arabia. You go on to say that U.S. forces in Southeast Asia get about 85 percent of their petroleum requirements from that country. Does all of this 85 percent come from U.S. companies in Saudi Arabia?

General WARREN. No, sir. It also comes from other companies.

Mr. SHRIVER. What percent of it from U.S. companies?

General WARREN. Sir, may I provide that for the record?

(The information requested follows.)

In fiscal year 1971 about 89 percent of total refined petroleum requirements for U.S. forces in the Western Pacific and Southeast Asia will be met directly or indirectly from Persion Gulf sources. Over one-half of the total requirements is normally purchased from U.S.-owned companies. The largest single source is from U.S.-owned refineries at Ras Tanura in Saudi Arabia and on the island of Bahrain under a contract with CALTEX Petroleum Corp. CALTEX, a joint venture of Standard Oil of California and Texaco, owns Bahrain Petroleum Co. (BAPCO) which operates the Bahrain refinery. The Ras Tanura refinery is operated by the Arabian-American Oil Co. (ARAMCO). ARAMCO is jointly owned by Standard Oil of California (30 percent), Texaco (30 percent), Standard of New Jersey (30 percent), and by Socony Mobil (10 percent).

DISPUTE OVER PERSIAN GULF ISLANDS

Mr. SHRIVER. ———

General WARREN. ———

Mr. CHAPMAN. ———

SWISS ARMS PURCHASES

Mr. SHRIVER. You mentioned Switzerland is one of the major arms purchasers in Europe. Why do they need arms?

General WARREN. Switzerland, although neutral, has some very effective and extremely well trained miliary forces. ——— Switzerland purchased aircraft several years ago from the French. ———. ———. They are now looking for an aircraft to replace or complement these French fighters, and they are considering buying in excess

of ——— worth of U.S. aircraft. This has not been decided yet because there are other non-U.S. aircraft in competition. I have the figures here on some of her purchases. The big figure in the congressional presentation document of ——— aircraft, ———.

———.

FRENCH ARMS SALES IN LATIN AMERICA

Mr. SHRIVER. On pages 10 and 11 of your statement you comment on the statutory ceiling placed on total military assistance to Latin America. You say that since the beginning of fiscal year 1968, countries other than the United States sold over ——— million worth of armaments to that area. Then, I quote:

> The major share of these sales, particulary for aircraft, would have accrued to the United States if we had modified our restrictive policies at an earlier date.

Would you describe the types of aircraft and the transactions involved?

General WARREN. Yes, sir.

France alone, in the last year and a half, or from 1968 until now, has sold ———. Now, by "sold," they may not be delivered yet. These are contracts that are either completed or are about to be, but the aircraft are not all delivered. In addition, France has sold ———. In contrast, our legislative ceiling for sales and grant materiel is $75 million. A total of nearly ——— in arms sales.

The United Kingdom has doubled her previous sales to Latin America since 1969.

Mr. LONG. I have no desire to interrupt Mr. Shriver, but I am interested in the principle of our 5-minute rule.

Mr. PASSMAN. I think I have presided with fairness.

Mr. LONG. I am mentioning this for the future. I want to make sure the 5-minute rule applies. I understand the application of it. It was worked out very well in legislative history that every day is a new day, and that we start all over again with the 5-minute rule.

Mr. PASSMAN. We will get a ruling from the full committee. Until we do, we will proceed as we all agreed here—I believe you were absent, but it was unanimous.

The gentleman from Kansas will proceed.

INCREASE IN UNDELIVERED BALANCES

Mr. SHRIVER. In the appendix of the justification book it is noted the amount of undelivered balance has increased substantially in fiscal year 1971 and to a lesser extent in fiscal year 1972. Significant reductions had been made in these undelivered balances in previous years. Why are they increasing again?

General WARREN. Part of it is because of that rather large fiscal year 1971 supplemental appropriation right at the end of 1970. That is the main reason for the increase.

BRITISH ARMS SALES IN LATIN AMERICA

Mr. SHRIVER. Do you have figures relative to Latin America?

General WARREN. To wrap up our earlier discussion on French and United Kingdom sales in Latin America, I had finished with the French ——— worth of arms.

The United Kingdom doubled her sales to a total of ——— in the last 2 years. So in the grand total we are up around ——— sales by two European countries.

Mr. SHRIVER. And it ought to be going to the United States.

General WARREN. Part of it, particularly aircraft, yes, sir.

Mr. SHRIVER. I couldn't agree with you more.

MAP TRENDS IN THE CONGO AND TUNISIA

Page 89 of the book shows a substantial decrease in the planned program for the Congo, and an increase for Tunisia between November 1970 and January 1971. What are the reasons for those late changes?

General WARREN. Sir, ———. I would like to ask Mr. Chapman to add to that, please, since State Department was interested and involved.

Mr. CHAPMAN. ——— but the purpose of the aid is to provide Tunisia with an internal security force with some capability to withstand external attack.

REDUCTIONS IN MAP FOR COLOMBIA AND GUATEMALA

Mr. SHRIVER. Page 90 shows large changes in the program for Colombia and Guatemala. Why?

General WARREN. The main change for Latin America was to completely eliminate all the hardware for fiscal year 1971. All of those programs you see for Latin America—they are all less than $1 million each—are strictly training with no hardware at this time.

MAP CONTINGENCY FUND

Mr. SHRIVER. There is also an increase of $5.2 million in the MAP contingency fund listed under nonregional costs. What is that item?

General WARREN. Sir, that item is a contingency, or a nonregional cost we planned for fiscal year 1971. If there were an emergency, or something of that nature, that required hardware assistance in Latin America, and the proper authorities determined we should assist, it would come from that fund.

Mr. SHRIVER. Why $5.2 million?

General WARREN. That is the net amount available after deleting materiel from Latin America and making other minor adjustments.

NATO COUNTRIES ASSISTANCE TO GREECE AND TURKEY

Mr. SHRIVER. What is the total amount of military assistance to Greece and Turkey anticipated in fiscal year 1972 from each of the other member countries of NATO?

General WARREN. In 1972——

Mr. SHRIVER. If you don't have that for fiscal year 1972, give us the figures for the last period for which it would be available.

General WARREN. I have it for 1972. Our program is this: ——— for Greece and ——— for Turkey.

Mr. SHRIVER. Is that from other members of NATO?

General WARREN. No, sir. This is strictly from the United States. The only other NATO member that receives any grant aid, sir, is Portugal. Spain is not in NATO, of course, but we do have a program for Spain, and that is the only other grant materiel recipient in Europe.

Mr. CHAPMAN. Turkey has also been receiving grant assistance from Germany. This year I believe the figure in mind is ——— in transport planes. It will be down from that in the following years.

General WARREN. ———.

(Discussion off the record.)

Mr. SHRIVER. Would you proceed General?

General WARREN. There are NATO countries that provide military assistance to Turkey and the other countries. I have some figures I will give you in a minute, but Germany is the biggest, and it will be approximately ——— this year. We have an arrangement with Germany so that we do not duplicate and we find out which country can provide each item the cheapest. We sit down with their planners and exchange program information so that our programs and the German programs fit together on Turkey.

With regard to Greece, ———.

Mr. SHRIVER. What I was trying to find out was the comparative amounts for the other countries in NATO. Obviously, they should be participating in their own defense.

TREND IN INVESTMENT COSTS

The pie on page 4 of the book shows that about 36 percent of your grants program will go for investment costs. That is equipment. How does this percentage compare with the past 2 fiscal years?

General WARREN. I believe it is smaller in amount, but I am not positive overall. One of our biggest concerns has been the constant increase in operating costs. For example, in Korea, this year's original program of $140 million would have gone entirely to operating costs. No investment at all.

Mr. SHRIVER. Could you provide for the record a breakdown of this total investment percentage for the top 10 recipient countries?

General WARREN. Yes, sir.

Mr. SHRIVER. I think it would be helpful to have it in the record.

General WARREN. I will put it in the record for those 10 countries.

(The information follows:)

MAP COST CATEGORIES FOR SELECTED COUNTRIES

[Dollar amounts in thousands]

Country and fiscal year	Total program		Operating		Investment		Training	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Cambodia:								
1970	8,899	100	5,434	61	3,459	39	6	(1)
1971	185,000	100	120,372	65	63,200	34	1,428	1
1972								
China:								
1970	23,511	100	21,469	91	4	(1)	2,038	9
1971	20,017	100	9,387	47	9,287	46	1,343	7
1972								
Ethiopia:								
1970	11,683	100	5,441	47	4,962	42	1,280	11
1971	12,000	100	7,388	62	3,372	28	1,240	10
1972								
Greece:								
1970	17,714	100	10,775	61	5,631	32	1,308	7
1971	20,000	100	11,811	59	7,319	37	870	4
1972								
Indonesia:								
1970	5,766	100	2,132	37	2,725	47	909	16
1971	17,996	100	5,476	30	11,437	64	1,083	6
1972	[Deleted]							
Jordan:								
1970	216	100					216	100
1971	30,164	100	5,077	17	24,922	83	165	(1)
1972	[Deleted]							
Korea:								
1970	132,164	100	121,574	92	5,052	4	5,538	4
1971	290,802	100	138,284	48	146,592	50	5,926	2
1972	[Deleted]							
Philippines:								
1970	15,961	100	11,829	74	3,243	20	889	6
1971	16,996	100	13,409	79	2,652	16	935	5
1972	[Deleted]							
Spain:								
1970	25,000	100	12,936	52	11,222	45	842	3
1971	25,000	100	15,525	62	8,808	35	667	3
1972	[Deleted]							
Turkey:								
1970	92,207	100	42,937	46	45,747	50	3,523	4
1971	100,000	100	38,718	39	58,012	58	3,270	3
1972	[Deleted]							

[1] Less than 1 percent.

Note: Fiscal year 1970 as of June 30, 1970; fiscal year 1971 and 1972 as of February 1971.

Mr. SHRIVER. Thank you, General.

And thank you, Mr. Chairman.

Mr. PASSMAN. Thank you, Mr. Shriver. We will have a brief recess until other members can return from their other business.

(A short recess was taken.)

Mr. PASSMAN. I call the committee back to order. If you have any questions you would like to ask, you may proceed.

Mr. GALIFIANAKIS. I have none at this time.

Mr. PASSMAN. Mr. McEwen?

Mr. MCEWEN. I have none, Mr. Chairman.

Mr. PASSMAN. Can you think of any you want to ask?

Mr. SHRIVER. I have no questions, Mr. Chairman.

Mr. PASSMAN. Mr. Hathaway, do you have any questions?

Mr. GALIFIANAKIS. The bells have rung.

1960 TESTIMONY ON MOROCCO

Mr. PASSMAN. You may recall earlier we were discussing Morocco. We said we would read into the record certain parts of the examination held on the fiscal year 1961 program. We will insert in the record the

information appearing on pages 2470 and 2471 of part 2 of the fiscal year 1961 hearings beginning with the caption "Morocco."

(The information follows:)

MOROCCO

Mr. PASSMAN. You request ———, for Morroco. This is an increase of ——— above 1960, and ——— above 1959?

Admiral GRANTHAM. Yes, sir.

Mr. PASSMAN. Notwithstanding the fact that we are terminating our base agreement, is it true we are embarking on a ——— year program in this country?

Admiral GRANTHAM. Yes, sir.

Mr. PASSMAN. What is the estimated cost?

Admiral GRANTHAM. ——— million.

Mr. PASSMAN. Is this a political program, or is there some military justification?

Admiral GRANTHAM. Political program with military justification. ———.

(Discussion of the record.)

Mr. PASSMAN. Are we making less and less use of the airbases there?

Admiral GRANTHAM. Some installations in Morocco are being evacuated and some personnel are therefore departing.

Mr. PASSMAN. Are you having some disagreement with the Moroccan Government as to the amount of rental we should pay on those bases?

Admiral GRANTHAM. No, sir; there is no rental connected with these bases.

Mr. PASSMAN. Payment in kind?

Admiral GRANTHAM. There is no payment in kind as I understand it, sir.

Mr. MURPHY. You are confusing Morocco with Libya, I believe, Mr. Chairman, you were thinking of Libya.

Mr. PASSMAN. You are correct; it is Libya.

Mr. TABER. You should tell us whether or not these items represent furnishing of military supplies, including ammunition, or whether they represent dollars.

Admiral GRANTHAM. These figures, sir, represent military equipment, ammunition, and some training, entirely military.

Mr. TABER. Purchasing is all done by our own people?

Admiral GRANTHAM. That is correct, sir. There is no direct dollar input from this military program into Morocco.

Mr. TABER. Is there on any of them?

Admiral GRANTHAM. Not from the military program, sir.

Mr. PASSMAN. The comment I made earlier referred to Libya, not Morocco.

Mr. MURPHY. Mr. Chairman, I do not recall exactly what the statement was. I can say this: The Air Force was making an annual special payment to the Libyan Government for economic development purposes which arose as part of the agreement between Libya and the United States and which led to our occupancy of Wheelus Airbase.

This special payment at one time was ——— and it was scheduled at a certain point to drop to ——— according to the original agreement.

Mr. PASSMAN. In ———.

Mr. MURPHY. Yes, sir.

(Discussion off the record.)

Mr. PASSMAN. In effect, you met their demand by putting ——— in the special assistance program?

Mr. MURPHY. Yes, sir; additional funds made available from special assistance.

Mr. PASSMAN. If not a subterfuge, it was possibly a political shakedown. Those are my words, not yours.

Thank you very much, sir.

USE OF PUBLIC LAW 480 FUNDS FOR COMMON DEFENSE

Mr. SHRIVER. Not long ago I read of a diversion of Public Law 480 funds for military purposes. Are you familiar with the charge that I am referring to, General?

General WARREN. Yes, sir.

Mr. SHRIVER. Will you discuss that, please?

General WARREN. During recent hearings before the Subcommittee on Economy in Government, of the Joint Economic Committee, it was alleged that the Defense Department and the State Department had been using these Food for Peace funds to purchase armaments. The first point I would like to make is those local currency funds cannot be used to purchase any arms in the United States, because FMS are statutorily required to be made for dollars and not local currency; commercial transactions are also for dollars.

It was further alleged that we had used major amounts of these funds for military purposes. This is not at all correct. Of the grand total of $7.4 billion generated in local currencies under Public Law 480, there was only $693 million, over a period of 6 years, which went for common defense purposes including internal security. Our agreements with each of these countries provides that these funds may be used either for economic assistance or, with the agreement of the country concerned, for common defense purposes, such as building barracks. We give them wheat and they build barracks, roads, et cetera. The allegation was grossly distorted, because only 9 percent of the total was used for common defense purposes, and of that, the Defense Department allocated, and administered only $2.8 million.

Mr. SHRIVER. Who made the allegation?

General WARREN. The allegation that appeared in the newspapers was apparently made by the Subcommittee on Economy in Government. It was a joint committee that Senator Proxmire chaired in January of this year; I was one of the witnesses before the committee. I believe it was these hearings that kicked off the erroneous publicity on the matter.

Mr. SHRIVER. Did that joint committee that made false accusations ever correct itself?

General WARREN. Apparently they didn't have the facts. We gave them the facts, but unfortunately the newspapers only picked up the allegation and not the facts: that we only had $2.8 million administered by the Defense Department for common defense purposes over the last 6 years.

Mr. CHAPMAN. The Public Law 480 is managed by the Department of Agriculture. It offers commodities to countries that are deficient. An agreement is reached with a given country on its requirements for certain commodities, and then we negotiate with that country on the uses of the local currencies generated by the sales of these commodities.

One of the purposes for which these local currencies can be used is for the recipient government's defense budget. For instance, the major example, of course, is Vietnam, now, which is both deficient in food, and because of its defense effort, needs supplementary funds to support its budget. Those currencies cannot be used to import arms, and it is one of the several purposes for which Public Law 480 is used.

I might add I believe this is a provision of the law, the Monahan provision, which requires that before a country receives Public Law 480 commodities that an agreement should be reached with that country to provide some of the currencies for defense purposes.

Mr. HATHAWAY. Is this the accusation, that several hundred million dollars over the last 6 years has been spent for defense purposes, and the information was that this was illegal, but it is perfectly legal?

Mr. CHAPMAN. Section 104(c) of Public Law 480. There is, furthermore, a provision in the Foreign Assistance Act put forward by Representative Monahan, "to procure equipment, materials, facilities, and services for the common defense, including internal security."

General WARREN. But the accusation that this went for arms—that is the headline in the paper—is incorrect, Mr. Chairman, because local currency cannot be used to buy military equipment from the United States. The law prescribes that sales must be for U.S. dollars. I have examples of where these Defense-administered moneys have gone. If you would like to have them, I can give them to you.

In Korea, $600,000 for civic action projects. Most of this was for road construction, barracks, and what not;

Pakistan—military base and airfield construction;

In Spain it was for airfield and naval facilities construction; and in Turkey it was in support of U.S. intermediate range ballistic missile sites, in the past, some time ago; no arms, though.

AID programed the rest of it into military budgets of foreign nations.

Mr. SHRIVER. Was that a joint committee?

Mr. CHAPMAN. Senator Proxmire's subcommittee.

Mr. SHRIVER. On what?

Mr. KNAUR. Economy in Government Subcommittee of the Joint Economic Committee.

Mr. SHRIVER. Then these allegations were false, were they not?

Mr. KNAUR. Yes, sir.

TERMS AND GUARANTEES UNDER FMS

Mr. GALIFIANAKIS. Have you accounts receivable that have soured?

General WARREN. We have had no default in payments since this new foreign military assistance credit program was set up.

Mr. GALIFIANAKIS. What is usually the length of time for which credit is extended

General WARREN. By law the maximum is 10 years. Usually we would like to negotiate them at 5 to 7. We would also like to negotiate some private bank capital which we can guarantee. This increases the amount of money available. Most banks won't go past 5 years.

Mr. GALIFIANAKIS. Give me an example of what you mean by generating private funds?

General WARREN. Let's say we have a $50 million package for country "X" and that country would like $65 million. If we get a bank to put up the other $15 million, we then guarantee the bank loan by setting aside one-fourth of $15 million as the guarantee.

Mr. GALIFIANAKIS. Any bank that is willing to do it?

General WARREN. Yes, sir.

It has to be a U.S. bank or the wholly owned affiliate of a U.S. bank in a foreign country.

Mr. CHAPMAN. We won't guarantee a foreign bank loan unless it is wholly owned by an American bank.

Mr. GOLDSTEIN. We can use a domestic branch of a foreign bank.

General WARREN. As an example, on a $100 million loan that a bank was willing to make, we would guarantee that loan reserving one-fourth of it, or $25 million, from this new appropriation. That $25 million would stay right in the Treasury, of course. It would not go to the bank unless the country actually defaulted. We would then have that $25 million and other guarantee moneys in the guarantee reserve to pay off the balance of the hundred million dollar loan.

Mr. HATHAWAY. We will recess and come back after the quorum call.

Mr. HATHAWAY. The committee will come to order.

Mr. Galifianakis had been questioning.

Mr. GALIFIANAKIS. General Warren, you were explaining the additional financial resources of having private banks put up the additional capital. You would need legislation to be able to do that.

General WARREN. Yes, sir. We do have existing authority to issue guarantees but we need the new obligational authority dollars to comply with the statutory requirement for a guaranty reserve. Dr. Long asked the other day, and I don't think I satisfied his question, why we don't just obtain private financing for all of our program, and use the appropriated moneys strictly to guarantee the private loans. That was part of the discussion. I have in detail why the banks won't do it, and why we need to extend on a direct basis probably two-thirds to three-fourths of our total new obligation authority. I am speaking only of loans to lesser developed countries because the developed countries use the Export-Import Bank.

As you probably know, the Foreign Military Sales Act prohibits the Export-Import Bank from extending loans to economically less developed countries for the purpose of acquiring defense articles or services.

COUNTRY ELIGIBILITY FOR LOANS

Mr. GALIFIANAKIS. That procedure doesn't encroach upon the business of the Export-Import Bank.

General WARREN. Not at all. There are two separate groups of countries entirely. I have the list of the countries eligible to buy arms in the United States, and have credit from the Export-Import Bank, and a separate list of the so-called lesser developed countries which are eligible for the foreign military sales credit moneys.

Mr. GALIFIANAKIS. Could we have that list in the record at this point?

General WARREN. Yes, sir.

(The information follows:)

DESIGNATION OF ECONOMICALLY DEVELOPED AND LESS DEVELOPED COUNTRIES

The term "less developed country" is not defined in the act. In determining whether a country is economically less developed, we start with the list promulgated by the President of economically less developed countries for the purposes of Interest Equalization Tax. Any country designated as less developed for the purpose of that Tax would be ineligible under section 32 of the act for credit financing by the Export-Import Bank. This criterion is the same criterion adopted by the Congress in section 2(b)(4) of the Export-Import Bank Act, as amended by the Congress in P.L. 90-267. That is not to say, however, that those countries designated as economically less developed for the purposes of that Tax are ineligible under section 32 of the act for Export-Import Bank credits. In addition, certain countries designated as economically developed for the purposes of that Tax may be considered as less developed by the Bank under section 2(b)(5) of the Export-Import Bank Act. Such countries would not be extended credits by the Bank by virtue of section 32 of the act so long as they are so considered by the Bank. For this reason, the $510 million of NOA requested in section 31 of the act for FY 1972 covers not only the countries designated as less developed for the purposes of the Interest Equalization Tax but also those countries not regarded as less developed under Interest Equalization Tax Act but which the Bank regards as less developed.

The current designation of economically less developed countries for the purposes of the Interest Equalization Tax is contained in Executive Order 11285 of June 10, 1966. Pursuant to that order, the following areas are designated as economically less developed countries:

(*a*) All foreign countries (including Trust Territories) in existence on or after the effective date of this order, other than Australia, Austria, Belgium, Canada, Denmark, Federal Republic of Germany, France, Iran, Iraq, Ireland, Italy, Japan, Kuwait, Kuwait-Saudi Arabia Neutral Zone, Libya, Liechtenstein, Luxembourg, Monaco, Netherlands, New Zealand, Norway, Portugal, San Marino, Saudi Arabia, Spain, Sweden, Switzerland, Union of South Africa, United Kingdom, and any foreign country within the Sino-Soviet bloc.

(*b*) Each territory, department, province, and possession (other than Abu Dhabi, the Bahamas, Bahrain, Bermuda, Hong Kong, and Qatar), of any foreign country in existence on or after the effective date of this order, other than a foreign country within the Sino-Soviet bloc, if the territory, department, province, or possession is overseas from the foreign country of which it is a territory, department, province, or possession; and

(*c*) The Commonwealth of Puerto Rico, and all possessions of the United States.

PRIVATE CREDIT ENCOURAGED

Mr. CHAPMAN. Could I make an additional point?

In the last 2 years the sentiment among the banks has been shifting, so that we are hopeful that this year, and more so next year, there will be more private credit available for this program. The policy is to encourage private credit, and reduce the requirements for direct Government funds, but up until now, the banks have been hesitant about going to this program, which is relatively new, but more and more are coming in to ask questions how the program works, and there is considerable evidence of interest.

Mr. HATHAWAY. If you will yield, on the private credit, do we subsidize the difference in interest rate?

Mr. CHAPMAN. We have considerable flexibility under the law. Our financial standards and criteria do authorize a rate of interest to be charged on the government portion of a combination of public and private financing which is less than the cost of money to us so as to make for an average rate of interest applicable to the whole transaction not less than the cost of money to the Treasury. With two exceptions, we have only provided funds at cost of money to the U.S. Government. One exception was because one credit to China was part of an agreement that we had reached 2 years prior to the law, so that the interest rates were lower than the cost of money to the U.S. Government. The other exception was for ——— in the spring of 1969. This was the first concrete deal of this new administration with ———. Up until then, ——— had received loans at 3 percent, and it was felt that to provide a loan at 6½ percent, which was the going rate at that time, would have been read in ——— as an unfriendly gesture on the part of the administration, but these are the only two exceptions.

Mr. HATHAWAY. We will have to recess and come right back.

(Recess.)

Mr. PASSMAN. The committee will come to order.

I yield to Dr. Long to consume as much time as he needs, to ask all the questions that he feels are pertinent to this bill, and I shall also ask the distinguished gentleman to preside until I return.

My friends, Dr. Long.

SUMMARY PRESENTATION DOCUMENT

Mr. LONG. General Warren, you referred to a spigot table which you are going to put together for us. Will that table tell us how much Public Law 480 money is being spent for various purposes?

General WARREN. Yes, sir; it will.

Mr. LONG. What else will you include in the table?

General WARREN. It should include the various foreign assistance programs the United States has of a security nature. It will include the grant aid program, our foreign military sales for 1972, and supporting assistance.

Mr. LONG. All kinds of military assistance, direct or indirect, by whatever spigot.

General WARREN. Yes, sir.

COUNTRY CAPABILITIES TO USE MILITARY EQUIPMENT

Mr. LONG. On page 2 you express your opposition to a continued $100 million ceiling on excess material as contained in last year's foreign military sales law. You state, "We will have a large amount of excess hardware because of troop withdrawals, budget reductions and modernization".

I would think there would be a limit to what little developed nations could absorb of our excess hardware. Have you checked into their potential for absorbing our excess stock?

General WARREN. Yes, sir, and in our 1972 program, which has to be illustrative, we have planned on a certain level of excess stocks as part of our overall program. Our grant aid, including excess stocks, plus our credit are all planned and considered as a unit.

There is a limit as to the amount of equipment the lesser developed countries can absorb and we check this very carefully. We also are very careful about the condition of the equipment that we do provide. Our MAAG's insure that countries have the capability to rehabilitate such equipment before we approve such transfers.

Mr. LONG. Are you aware of the possibility of what we might call military assistance pollution?

General WARREN. I understand, Mr. Chairman, exactly what you mean. However, I would like to make the point, which is very important, that the only equipments that we will release to foreign countries are those for which a requirement exists. For each country we list all of the items it needs, such as "X" number of trucks, a certain number of artillery pieces, and so on. The only items we pick up out of the worldwide excess stocks are those for which a requirement exists.

SITUATION IN ETHIOPIA

Mr. LONG. Let me skip to Ethiopia, which I am going to visit next week. What is the situation in Ethiopia? You say Ethiopia is to receive most of the grant aid for Africa.

General WARREN. Yes, sir.

Mr. LONG. I have a March 17 article from the New York Times saying there is concern that improved weapons for Ethiopia could cause an arms race.

General WARREN. Sir, with regard to Ethiopia, the situation this year is much more serious than it has been in the last 2 years when I came before this group. There are insurgents in the northern province of Ethiopia.

The Eritrean Liberation Front has been an incipient insurgency force in Eritrea for a number of years. It has gained support, supplies and equipment from the more extremist Arab States such as Syria, Iraq and Republic of South Yemen, including modern Soviet automatic weapons. The Ethiopian Army is equipped largely by the United States, and some weapons are in need of improvement. ———.

KAGNEW COMMUNICATIONS FACILITY

Mr. LONG. Where is Kagnew station? There used to be a place called Marina or something.

Mr. CHAPMAN. Asmara.

Mr. LONG. This is at Asmara?

Mr. CHAPMAN. Yes, sir; in the Eritean tail in the northeast.

Mr. KNAUR. It is in the upper part of the country.

Mr. LONG. Do we have a communications station in Ethiopia?

General WARREN. Yes, sir; Kagnew.

Mr. LONG. Is there one over in Eritrea?

Mr. CHAPMAN. Kagnew is the one.

Mr. LONG. There is just one U.S. station in that part of the world?

Mr. CHAPMAN. That is correct.

Mr. LONG. Did it formerly have a different name?

Mr. CHAPMAN. Kagnew.

Mr. KNAUR. Or Asmara.

Mr. CHAPMAN. Asmara is the Capital of Eritrea, which is a province, sir. Asmara is the capital.

Mr. LONG. This must have had a different name.

Mr. KNAUR. Mesawa.

Mr. LONG. No, something like Marina. John Gunther describes it as a big U.S. communications station.

General WARREN. It is a big station, sir.

Mr. LONG. But there are not two U.S. communications stations in Ethiopia, is that correct?

General WARREN. There is just this one.

Mr. LONG. I want to find out more about the station. Before I go out I hope you will let me know.

General WARREN. This is an important station in our global communications system, ———.

Mr. LONG. It must be the same station.

General WARREN. It has a complement of, I think, close to 5,000, people including dependents.

Mr. LONG. At Kagnew?

General WARREN. Yes, sir; including dependents.

Mr. LONG. Over the years it has grown tremendously.

General WARREN. ———.

Mr. LONG. Is this station valuable to us?

General WARREN. It is ———. A 1968 estimate placed the cost at something like ——— I think, to relocate it. ———.

Mr. LONG. What was the other thing that Ethiopia annexed? How old is this Kagnew station?

Mr. CHAPMAN. 1942.

Mr. LONG. This is probably the same one that Gunther is referring to. He describes it pretty well. Either you have given the station a different name, since I am not aware of it, or Gunther used the wrong name.

General WARREN. May I correct the record. When I said about 5,000 people, Mr. Chairman, I was high. It has about 3,500 Americans.

Mr. LONG. How many?

General WARREN. 3,500.

Mr. LONG. But it is quite an operation.

General WARREN. Yes, sir.

Mr. LONG. Will it be possible for me to visit Kagnew when I go to Ethiopia?

General WARREN. I am sure it will; yes, sir.

Mr. LONG. I am very anxious to look at it.

LATIN AMERICAN ARMS LIMITATION

Now, returning to your statement, you note that U.S. restrictions have forced Latin American nations to look elsewhere for modern arms. I have an article from the March 16 Washington Post saying that Colombia is seeking a Latin nations arms limitation. Do you feel that this is an encouraging development?

General WARREN. The Colombian arms control proposal is an encouraging development. Although the proposal may fail to lead to meaningful arms limitation, it is an effort from within Latin America to consider arms control within the OAS framework. The Colombian initiative deserves support. The Colombian proposal does not envisage any cancellation of any arms acquisition contracts already consummated. Regional arms control arrangements in Latin America could help prevent an arms buildup which might contribute to the outbreak of conflict. They could also serve to limit diversion of resources from economic and social development. Moreover, were the Latin American countries to agree to observe restraint in the area of arms buildup and military spending it could set an example that might be emulated by other developing countries.

AID TO INDONESIA

Mr. LONG. On page 6 you state that we are expanding our grant aid program to Indonesia. How is that aid being spent? Has Indonesia already absorbed the assistance you requested in your fiscal year 1971 supplemental bill last November?

General WARREN. The expanded program is designed to provide ———. The $3 million provided by the supplemental appropriation has been obligated. This assistance is being absorbed as it becomes available from production and rehabilitation.

POLICY TOWARD GREECE

Mr. LONG. What is our policy toward Greece? I have a Washington Post column of February 26, 1971, that indicates that the U.S. decision to resume aiding the Greek junta was based on the concern of the junta and antijunta groups for national security, as well as progress toward parliamentary government. Now, Evans and Novak tell us that antijunta forces didn't support our decision and that State Assistant Secretary Sisco said, on February 14, ". . . we have been disappointed . . . that there hasn't been more progress towards the establishment of parliamentary government." Do we intend to arm the Greek junta no matter what they do to the Greek people? Don't we have some leverage? Why don't you suggest they look to the Soviet Union for arms if they refuse to adopt parliamentary reforms? They would never accept Soviet aid.

General WARREN. On September 22 the administration announced its decision to resume normal military shipments to Greece. The considerations underlining this decision were the enhancement of the Greek Armed Forces to carry out its responsibilities in the defense of the NATO area with the resulting contribution to the cohesion and strength of NATO's southern flank. Additionally Greece offers strategic advantages to the NATO alliance and to the United States which are important to the security of the West. The United States had hoped for a more rapid return to full representative government in Greece. This concern continues. ———.

It is worthy to note that only a portion of Assistant Secretary of State Sisco's comments have been cited by the Evans and Novak article of February 26, 1971. Let me quote exactly what Mr. Sisco said:

Let me just say a word about our policy on Greece. First of all, candidly, we have been disappointed in the fact that there hasn't been more progress towards the establishment of parliamentary government. On the other hand, I think one must bear in mind that Greece is a loyal NATO ally. The Greek people have a tremendous affection for America and the American people. Greece is important to the United States as part of the southern flank of NATO, and we have really tried to pursue a two-pronged policy, namely, to support the present leadership insofar as its responsibilities are concerned within the NATO framework and we would hope that more progress in the future can be made towards the establishment of democratic institutions.

Suggesting to Greece that it look to the Soviets for arms is a rather empty one at this point in time. The free world members can ill afford to undermine NATO defensive purposes and might do so by indicating the continued displeasures with respect to the efforts and practices of the Greek regime. There are other and better methods that can be used. Terminating military assistance to a close ally of more than 20 years is not the way to do it.

CAMBODIA

Mr. LONG. On page 9 of your statement, you said you hope to avoid a supplemental request for fiscal year 1972. Last November you requested supplemental funds for fiscal year 1971, including $85 million

for Cambodia. This year you are requesting ——— for Cambodia. Will the ——— be sufficient for Cambodia? What will the money be used for?

General WARREN. The ——— million requested for Cambodia represents the current best estimate of the requirements for the Cambodian armed forces for fiscal year 1972. Due to the uncertainties inherent in a combat situation, it is not possible to project at this time whether the funds requested will or will not actually be sufficient. The funds are projected to be used for ———.

NEED FOR ADDITIONAL FUNDS

Mr. LONG. On page 9 you also state that you think the fiscal year 1972 request will be sufficient, barring any Presidential determinations in the months ahead. What situations do you foresee that might require added military assistance or military credit sales authority?

General WARREN. As I have stated, we believe the request for fiscal year 1972 funds will be sufficient. I do not foresee any situations, in the immediate future, that would require additional assistance, however, one must be prepared to respond to emergencies that may arise. A flare up of the Mid-East situation or any insurgency situation that would threaten the security of any free world countries might be general examples.

TIMETABLE TO WITHDRAW FROM VIETNAM

Mr. LONG. Last November 25 when you appeared before us to request supplemental funds for fiscal year 1971, you told me you were working on a timetable to phasedown the military assistance program in Vietnam. What's the status and the detail of that timetable? I will include the testimony in the record.

(The testimony follows:)

Mr. LONG. Most people I have talked to think there is some program for getting completely out of Vietnam by a certain date and I wonder whether——

Secretary LAIRD. We have a program to get out of Vietnam. Phase 1 of that program turns over the combat responsibilities to the forces of South Vietnam. Phase 2 of that program turns over the air, logistic, artillery support in Vietnam. Phase 2 is running concurrently with phase 1, but phase 2 will take much longer because of the training requirements that are involved.

Mr. LONG. Do we have a timetable for that?

Secretary LAIRD. Phase 3 covers the military assistance program, a phasedown in that particular program. We have not announced any timetable on the program, although for planning purposes within our Department we have established a certain timetable. The reason that we have not made this a matter of public record is that we are in negotiations, and the President, as one of the very important points in his recent peace proposal, has provided for a negotiated, complete withdrawal—which could be much faster than the current Vietnamization program.

Vietnamization merely complements our negotiating position. If negotiations should fail, if we are not successful in a complete negotiated settlement, then Vietnamization is the answer. But it would be a grave error both on the part of our negotiation position, and with regard to our military posture, for us to go forward with public announcements on complete timetables on phase 1, phase 2, or phase 3 of Vietnamization, as far as the military aspects are concerned.

Mr. LONG. Right, but you do have timetables in your thinking.

Secretary LAIRD. We have it on charts. We have program flow charts, dates, all turnovers, all planning in this area.

Mr. LONG. Thank you, Mr. Secretary.

General WARREN. Secretary Laird in his recent fiscal year 1972–76 Defense Program and the 1972 Defense Budget message before the House Armed Services Committee on March 9, 1971, outlined our plan of Vietnamization. The plan is divided into three distinct phases.

The first phase consists of turning over to South Vietnam the ground combat responsibility against VC/NVA forces. As I have said many times before, we expect to complete phase I by this summer, although American ground combat forces will remain in a security role to protect U.S. forces as phase II progresses.

The second phase consists of developing within South Vietnam the air, naval, artillery, logistics and other support capabilities necessary to maintain effective independent security. Phase II has been in process concurrently with phase I, but it will take longer to complete because of the complex training involved.

The third phase will consist of reducing the American presence to a military advisory mission, together with whatever small security forces are needed to protect this mission. Further reductions of our assistance and advisory presence will then continue, under the Nixon Doctrine, as South Vietnam continues to grow in national strength and self-reliance, until no more U.S. military presence is required.

SITUATION IN PAKISTAN

Mr. LONG. On the night of Thursday, March 25, U.S. M–24 "Chaffee" tanks were used against the people of East Pakistan. These tanks were apparently left over from the now defunct military assistance program.

General WARREN. A modest quantity of World War II vintage M–24 light tanks was transferred to Pakistan under terms of USMAP. Their delivery was accomplished in the earliest phases of the program that began in 1954 and was terminated as a result of the war with India in 1965. We have no authoritative corroboration of reports of their use in the current civil war in East Pakistan.

We have regarded the political relationship between the leaders of East and West Pakistan as an internal matter; it would not have been appropriate for Ambassador Farland to intervene during the period when he was in contact with leaders of both wings of Pakistan. On the question of the use of American military equipment, we have seen the reports in the press and other media that U.S. supplied weapons have been used. Although, as provided for in the foreign assistance legislation, the agreements we have with the Government of Pakistan for the supply of military equipment provide that the equipment may be used "to maintain its internal security" and in "preserving its national independence and integrity," we have expressed concern to the Pakistan Government about the possible use of American weapons in this conflict.

Mr. LONG. President Nixon recently, for the first time since the Indo-Pakistan War, decided to sell some equipment and spare parts to the Yahya Khan Government. When this decision was made, did the administration have any idea that this civil conflict was about to break out?

General WARREN. The decision to offer a limited one-time exception to the prohibition on the sale of lethal material of United States origin to Pakistan was announced on October 1, 1970. Serious consideration

of the offer, which stipulates that any sales resulting would require cash payment, began some months earlier. The offer would permit Pakistan to acquire only four types of items: Armored personnel carriers, interceptor aircraft, some obsolete light bombers, and a few patrol aircraft. Quantities were specifically stated and limited to replacement of similar items lost through normal wear-out and accident. At the time the offer was made, President A. M. Yahya Khan had announced his intention of holding fully democratic elections and returning Pakistan to civilian administration. Subsequently on December 7, 1970, balloting was held based on universal adult suffrage, the first such election in the country's history. It was only subsequently that political differences between the two regionally based factions emerging from the polling in positions of strength began to set the stage for the current civil disturbances in East Pakistan.

Mr. LONG. U.S. C–130 troop transport planes carried Government troop reinforcements into Dacca to carry on the fight against the East Pakistanis.

General WARREN. The only transport assets of the Pakistan Air Force consist of a small number of C–130B aircraft delivered prior to the termination of MAP and a few additional planes of a similiar model purchased as surplus from Iran several years ago. These aircraft have been in recent use between the two wings of Pakistan, but firm information is lacking as to cargoes carried.

Mr. LONG. I must go to the Military Construction Subcommittee. Mr. Hathaway, will you take over.

Mr. HATHAWAY. Mr. Galifianakis, do you want to resume where you had left off?

LEGISLATIVE LIMITATIONS ON U.S. ARMS SALES

Mr. GALIFIANAKIS. I think I had requested General Warren to insert a list of the countries eligible, on the financing. I suppose that all means that we are going to continue our policy to try to compete with Russia, Great Britain, and France in the sale of this military equipment to whoever wants to buy it and qualifies.

General WARREN. Sir, I would welcome the chance to comment on this, because it is of extreme concern to the Secretary of the Treasury, among others. We aren't trying to get into a sales race with anyone, but we are extremely concerned over the constraints which have been placed on our programs by congressional action, which makes it impossible for U.S. manufacturers to sell legitimate arms that our allies want, particularly in Latin America—and in Africa to a degree. As a result, since we can't sell them anything, those countries are turning to Europe. As I mentioned, in the last year and a half, we were constrained by a $75 million ceiling on grant and sales of materiel in Latin America, and we are at that ceiling today. I just had to tell the three services to put a stop on any further acceptance of letters of offer. Yet some of these letters are already out and technically, if the country signs it, it is a contract.

I have had to tell the services that if this happens, they are going to have to tell those country representatives that we are at our ceiling and to bear with us and we will try to sell it to them next year. I am talking of a $75 million ceiling already reached with 3 months yet to

go in this fiscal year. Yet during the last year and a half, because of this situation, France and the United Kingdom have moved into the market to the tune of about ——— in arms sales to Latin America.

Mr. GALIFIANAKIS. But the economics is not your primary interest, is it?

General WARREN. No, sir. Our interest is in defense. We are not going to push arms sales or high pressure any country into buying anything that it doesn't want. The sales initiative must come from the country concerned. Some years ago there was pressure placed on these sales because of the gold flow. In the Defense Department today, although gold flow is of concern, our primary concern is to furnish defensive weapons to our allies, particularly the forward defense countries, properly in the interests of our mutual security.

RESULT OF UNITED STATES LIMITING ARMS SALES TO LATIN AMERICA

Mr. CHAPMAN. May I expand on this at this point? Specifically in Latin America, this is one of the more difficult foreign policy problems we have. Some members of this very committee, Dr. Long among others, have felt very deeply and strongly about our selling or giving what are called sophisticated arms, essentially expensive weapons systems, to countries which do not have the means to develop their own economies. This has been very much the concern of the Executive Branch over the years. There is nothing new in this.

In Latin America you have large countries which have had air forces, armies, and navies historically, which after a good many years of low defense budgets find that most of their equipment is obsolete. There are only something like 350 jet trainers and fighters in all Latin America, and only one squadron of these is supersonic so far. Most of the aircraft are about 20 years old, so they have a requirement to modernize their forces. It is either new planes or doing away with their old air force.

We have been confronted by a very difficult policy issue. How do we moderate this modernization program, which is required to maintain their forces in being at a reasonable level? Our constraints, both the legislative constraints and the policy constraints, have been such that over the last 2 years, as General Warren has indicated, the Latin American countries have gone to Europe, where they do not have the same view of sales of military equipment. The result is that there has been a shift in the market. In the last year, however, we have told certain Latin American countries that we are prepared to sell planes, such as F–5's, which are relatively inexpensive and relatively inexpensive to run, but we will not sell the F–4, for instance, which is very expensive, and very expensive to maintain.

Mr. GALIFIANAKIS. What do you see that they are defending against?

Mr. CHAPMAN. Each country has its own perception of its security.

Mr. GALIFIANAKIS. Is there a common denominator in Latin America that you detect? They always have an urgency about defense. I guess every sovereignty feels that way. That is the make-up of a sovereignty, the ability to repel and the ability to exert power, but I was wondering if there was a common denominator or a common enemy in Latin America.

Mr. CHAPMAN. No.

Mr. GALIFIANAKIS. What prompts this kind of necessity?

Mr. CHAPMAN. The rationale for our military assistance and sales in the last few years is to help Latin American countries have the capability to maintain internal security. Many of the countries have had serious problems with insurgent situations, guerrillas, many of them supported from Cuba.

Right now there is no situation which probably would result in a war between these countries, although there was a very brief conflict 2 years ago between El Salvador and Honduras. These things can blossom out very rapidly.

Mr. GALIFINIAKIS. Presumably the congressional constraints were designed to minimize whatever they have to defend against, and I assume it is the internal conflict that I gather is the common denominator. If you had to pick one, I suppose that insurgency would be the principal problem, wouldn't it?

Mr. CHAPMAN. This is the principal problem as seen from here. Seen from there, they have armed forces in being. They have histories, and they have a history of conflict with insurgents in these countries.

Mr. GALIFIANAKIS. You come back to the proposition that these countries are determined, in the final analysis, to have some kind of defense, and the real issue is from what source that defense equipment shall come.

General WARREN. If I may comment on that, I agree with the U.S. policy to discourage arms races. But in this recent development in Latin America, while the United States is discouraging an arms race, the United Kingdom and France are out for dollars. We aren't sponsoring an arms race, but relatively large expenditures are being made for more advanced and costly military equipment than that originally sought from us, thanks to these third country sales. It is an unfortunate situation that is going to get worse. The United Kingdom has sold ——— worth of military equipment in the last year and a half.

Once one of these countries gets committed to another country for, let's say, aircraft, which are very expensive to operate, they are committed for the future. They have to stay with that country so long as the equipment is in their inventory. It is pretty difficult to switch and equip from the United States. We have already lost a great deal of the Latin American market.

ROLE OF FOREIGN GOVERNMENTS IN THIRD COUNTRY SALES

Mr. GALIFIANAKIS. General, most of these companies which manufacture the equipment, they are not nationalized in France and England, are they?

General WARREN. Sir, the way they operate is this. They are not necessarily nationalized but their government seems to have an important role in their policies. ——— As a result, worldwide, the United Kingdom and France now are selling as much as the United States is and if you add in Germany, Italy, and Canada, their foreign sales are much greater than ours.

Mr. GALIFIANAKIS. Are the companies wholly owned French companies? Do you look into the make-up of the corporate structure of the industry that manufactures the equipment?

General WARREN. I have out of curiosity. No, sir, some of them were subsidized to a degree. In the case of France, to the best of my knowledge, their main aviation company, which sells Mirages and several other aircraft, is not government-owned, is that correct, Chris?

Mr. CHAPMAN. Yes, I think it is private.

General WARREN. It is backed by the government, ——— with very few exceptions.

U.S. ROLE IN THIRD COUNTRY SALES

Mr. GALIFIANAKIS. I was curious to know if these companies, via their governments, get assistance from the United States in some form or fashion, and then turn around and compete with us in this?

General WARREN. In some cases the companies do have to get assistance from the United States. For example, both the United Kingdom and France are behind the United States in the technology of electronics, and so their companies look to the United States to supply some of their avionics. We are involved to a degree because they use some U.S. parts, but that is a small part of the business.

U.S. GOVERNMENT RELATIONS WITH PRIVATE MANUFACTURERS

Mr. GALIFIANAKIS. Is a contract ever initiated directly, speaking of the United States now? Does the representative of a particular equipment manufacturer make his own contacts? Does he solicit trade all over the world, and then seeks the approval of our Government?

General WARREN. We encourage industry to provide its own field representatives. Our military assistance groups, which are in some 48 countries, have been instructed to assist U.S. manufacturers' representatives in those countries. The only thing that we have asked of industry, and they are pretty cooperative, is that they not go to Latin America or some other place selling an item of equipment that the State and Defense Departments will not approve their selling. If they let us know where they are going and what they are going to talk about, maybe we can help them.

As an example, if somebody were trying to sell Phantom F–4's to Latin America, this Government would presently not consider approving it, because that is a long range strike weapon, and Latin America has no requirement for it.

On the other hand, as for the F–5's or less expensive airplanes, several of us feel that they should have them. It is probably too late, however, because with the lag we have had in approving them, I think most countries in Latin America have gone ahead and committed themselves to Europe.

EFFECT OF SALT TALKS ON MILITARY ASSISTANCE

Mr. GALIFIANAKIS. One more question, Mr. Chairman, and I am finished.

In the discussions at the SALT Conference, are there matters now being discussed that directly encroach upon your activity?

General WARREN. I don't know of any, sir. We don't get into the nuclear items in military assistance.

Mr. GALIFIANAKIS. Thank you very much. Thank you, Mr. Chairman.

UNITED STATES AND THIRD-COUNTRY ASSISTANCE TO SAME RECIPIENT

Mr. HATHAWAY. Are we giving any military assistance to any countries that are buying weapons from other countries?

General WARREN. Yes, sir; quite a number of them.

Mr. HATHAWAY. Why do we do that?

General WARREN. A good example is Iran. Iran bought and bartered something like ——— worth of military gear from Russia, and we are providing her a small MAP training program. To answer the question, yes, we and the Soviets are providing assistance simultaneously to a number of countries, but, for the most part, we don't regard it as anything serious. Ethiopia, which we were discussing a while ago, bought, I think, two helicopters from Russia.

This is all right we think; it is the large orders that concern us. Some of the countries, like India and Pakistan, that we dropped from our rolls a while ago, have been securing arms from the Soviets and we still have a small sales program with those countries.

Mr. HATHAWAY. But no MAP.

General WARREN. The only grant aid is some training in the United States for a small number of their officers. It is worthwhile because it helps acquaint them with the United States and we achieve a closer liaison with a few of their people. Since we pulled our MAAG out, and since that war of 1965, our military relations with Pakistan have been worsening. Over the past 8–10 months, there has been a perceptible improvement in United States-Indian military relations as indicated by the warm reception accorded General Westmoreland during his recent visit ———.

Mr. HATHAWAY. Is what you say true of all countries? We are just giving them training aid, to the ones that are buying from other countries?

General WARREN. No, sir. I would have to check my list.

Mr. HATHAWAY. It would seem inequitable if we were giving them airplanes and they are buying airplanes from somebody else.

General WARREN. I was just handed this list of non-Communist recipients of Soviet arms. We don't have programs with all of them, but Ethiopia, I mentioned; Libya is now buying Soviet arms, but we eliminated the U.S. program—although we still have a small administrative group in that country—Morocco, Nigeria—these are countries who have received Soviet arms that we do have MAP programs with—Iran, as I mentioned. Pakistan is strictly a sales country except for a small grant training program. In East Asia, Cambodia was, in the past, but not now. That is all.

Mr. CHAPMAN. I do not think that there is any country to which we are providing substantial amounts of grant aid that are buying major investment items elsewhere.

General WARREN. That is correct.

Mr. CHAPMAN. Not Korea, not Turkey. The only one that is beginning to buy elsewhere, and only beginning, is Greece, and we are phasing down the grant assistance to Greece rather rapidly.

Mr. SHRIVER. But aren't we supplying India and Pakistan a lot of economic aid to permit them to do business elsewhere?

Mr. CHAPMAN. As you know, Mr. Shriver, this is an old subject. The economic aid is provided on the theory that there is a requirement in these countries to develop their societies over the long run, and if we were to provide no economic aid, they would allocate the same resources to their defense, and the simple result of this would be to——

Mr. SHRIVER. It releases their resources for their defense and purchase of arms from Russia.

Mr. CHAPMAN. It would simply mean, if there were no economic aid, that their economic and social development would be that much retarded. It would not affect the allocation of resources, which they use for their defense.

Mr. HATHAWAY. You know this for a fact? We have never tried to do it otherwise. It seems the least we should do is if they are going to use this economic aid and release other funds, we should require that they use the other funds to buy from us and not from Russia.

Mr. CHAPMAN. India and Pakistan—since 1965 we have refused to give or sell any lethal end items. It was only last year the President made the one-time exception, and has allowed the sale of a limited number of specified lethal end-items to Pakistan. None of these items have been delivered.

General WARREN. It is important to note for the record that that equipment totals almost ——— and there are only four items.

Mr. CHAPMAN. It is not yet negotiated. They are looking at the amounts involved and having second thoughts.

General WARREN. I believe there was a question on the arms for Greece from other countries. Canada is the only country currently furnishing grant assistance to Greece. This aid is in the form of T–33 aircraft spares.

Mr. MCEWEN. On that point, I was wondering, General Warren, if it wouldn't be helpful to have possibly a bar graph similar to the one on page 76 showing our military assistance appropriations, what the other free world countries have been doing, whether it is increasing or decreasing. I realize that that is sometimes tied into economic aid too, that they are doing more there rather than with the military.

General WARREN. I have all the figures, sir. Actually I don't think they would make a good bar chart because the figures are small and inconsistent. In the case of the Soviet Union, I believe that her total worldwide military assistance over the last 20 years—not grant aid but military assistance since all of hers are sales—is about half of ours.

Mr. MCEWEN. It is about half of ours?

General WARREN. Roughly, yes, sir, since our military assistance program started in 1950. I have the figures here, if anyone is interested in any particular country.

Mr. HATHAWAY. Could we have for the record the justifications for both military and economic aid to those countries which are purchasing arms from Russia or China or other nonallied countries.

General WARREN. Yes, sir. I would ask my colleague from the State Department to provide it for the record, because the decision on which countries are to receive it, is made by the Secretary of State after coordination with the Secretary of Defense.

(The information follows:)

The U.S. Government is presently providing military grant materiel assistance to only 13 countries. We have no indications or evidence that any of these countries are purchasing arms from the Soviet Union, China, or other nonallied countries. We do provide small grant assistance training programs to some countries which make military purchases from the Soviet Union or China. We believe these programs are valuable in maintaining contacts with important leaders in these nations, and in providing professional training to the military. We also provide military credit to some countries and believe these also provide a needed balance to the U.S.S.R. and China.

We provide economic assistance in order to enable the recipient country to achieve economic and social growth and to attain a level of stability necessary for maintenance of a viable state. Much of our economic-assistance is based on humanitarian needs of the peoples involved. Further, we believe that it is important to maintain contacts and an American influence, especially where there are evident contacts with the Soviet Union and China.

Based on past experience and studies which have been made, we are also doubtful that the withholding of American assistance would have any beneficial effect on the policy of these countries regarding military purchases. The effect, most probably, would be to reduce the role of economic growth with the same amount of funds devoted to military procurement.

EFFECT ON REMOVAL OF LIMITS OF SALES TO LATIN AMERICA

Mr. HATHAWAY. Do you think if we took the lid off of the arms sales to Latin America, that we could outbid or underbid Britain and France, so that we would get a large share of that market, and thereby control just exactly what is going in there, or do you think there is any possibility of that? I understand in the arms sales program we don't sell them just anything they want, though I don't think that is the policy with Great Britain and France. They will sell them anything I suppose if they ask for it.

General WARREN. I think they will for the most part. If we took the ceiling off—since I have not consulted with the State Department, this is the Defense position; I talked to Secretary Laird on it a couple of times—we would still have complete control over what goes in there, because nobody can sell a major arm to anybody without State Department approval of an export license. I favor no statutory ceiling at all, and letting the Administration regulate it from year to year as the situation requires.

However, what concerns me regarding your question, sir, is that I think it may be too late now.

Mr. HATHAWAY. They are too far down the road with these other countries?

General WARREN. If we remove the ceiling, we could sell to the Latin American countries around $125 million worth of equipment

which we think they properly need and should have this fiscal year. Right now we are at our $75 million ceiling. We have outstanding letters of offer, which we have already approved for $92 million worth of materiel.

Mr. HATHAWAY. If we lift the ceiling, can we justifiably presume that this will cut back on the amount that Great Britain and France will have to sell, because these countries are operating within a fairly fixed budget?

General WARREN. I think most countries in Latin America would prefer to deal with the United States. They always have. Our U.S. military groups there—and most people don't understand this since they regard them like our military assistance advisory groups elsewhere in the world—many of them were in Latin America at the country's invitation before we even had a MAP program. The point is that Latin America traditionally has been oriented toward the United States, and it would be very beneficial if we could start selling to them again. We can control what we sell without a ceiling in the legislation, and it certainly would help our relations there. I was talking today to one of our senior generals, who is the head of the Inter-American Defense Board. He just made a tour with some senior military people and came back absolutely shocked at what he had learned. People there are still trying to deal with the United States, but they are bitterly disappointed because for 2 years now they have been trying to buy from the United States but without success. So they just turn to Europe.

Mr. HATHAWAY. But would this result in keeping the total arms purchases down there at about the same level? In other words, if we allow another $125 million, that isn't going to add $125 million to the total?

General WARREN. That is right, but we would cut into the future sales of England and France if we didn't have any ceilings on our dealings.

Mr. CHAPMAN. I think the point should be made that it might not be so simple; first, because many of the countries have already committed themselves to modernization programs, and I think we are sort of viewing a big hump now, which will come down.

Second, because for certain major pieces of equipment, for instance, destroyer escorts and destroyers, which represents a large proportion of what they are buying in England, England is in a position to sell that kind of equipment more cheaply than can be manufactured here in the United States.

Mr. HATHAWAY. So we won't cut into that?

Mr. CHAPMAN. That is right.

Mr. HATHAWAY. What fields would we cut into—aircraft?

Mr. CHAPMAN. Aircraft; but I think General Warren is right.

Mr. HATHAWAY. They are too far down the road on that?

Mr. CHAPMAN. The contracts have been let. Many of the countries wanting to buy new aircraft have already committed themselves.

Mr. HATHAWAY. Do you think the nature of the Communist threat throughout the world, since they are tending more toward nationalism, is much less than it was, say, at the end of World War II?

Mr. CHAPMAN. Different men will give you different answers, but my own judgment is that the hard stance we took in the 10 or 15 years following World War II convinced them they could not expand their influence, and that they have calmed down somewhat. They are divided, the Soviet Union and China, but you have individual Communist Parties, such as in Chile, where they claim they are going their own ways. So there is national independence within the Communist movement.

The quantity of the threat as seen now is different from what it was 10 years ago when we perceived the threat as being a single threat commanded from Moscow. This, of course, has made a major difference.

Nevertheless, I think we all feel that they are still playing with a very hard ball, and if they thought it was necessary, they would use the necessary force to improve their position. The best example, of course, is Czechoslovakia in 1968. If we were to lower our guard, it would be simply inviting a new aggressive foreign policy.

Mr. HATHAWAY. That would be controlled from where, though?

Mr. CHAPMAN. The Soviet Union, of course, is the principal power. The Soviet Union has continued to devote enormous funds for their military. Their navy, now, has shown up in every ocean in the world, as a first-class, new navy. Their strategic force is equal to ours, and there is no cause to feel that there is no problem left now.

Mr. MCEWEN. What is Russia's percentage of gross national product?

Mr. CHAPMAN. I am sorry, I don't have the figure at hand, but I believe it is around 9 or 10 percent.

Mr. HATHAWAY. And ours is about 7?

Mr. CHAPMAN. Ours has been going down.

Mr. HATHAWAY. That may have been the goal he wanted to achieve.

Mr. PASSMAN. I wonder if it wouldn't be helpful to the committee to place in the record at this point the amount of GNP, of each of the military recipient nations and the European nations, being spent on defense?

Mr. CHAPMAN. In the country presentation I believe you do have it already.

Mr. PASSMAN. I know that, but we could not possibly insert the entire book in the record. We want you to put it in the record.

(The information follows:)

DEFENSE EXPENDITURES AS A PERCENT OF GNP FOR THE EUROPEAN AND MILITARY ASSISTANCE PROGRAM COUNTRIES, CURRENT MARKET PRICES

[In millions of dollars]

Country	GNP	Defense expenditures	Defense expenditures as a percent of GNP
Cambodia	743	45.0	6.1
China	4,760	482.5	10.1
Indonesia	12,070	418.9	3.5
Korea	8,895	350.0	3.9
Malaysia	3,364	108.0	3.2
Philippines	9,865	124.0	1.3
Afghanistan	1,400	18.2	1.3
Greece	9,200	446.0	4.8
India	52,470	1,778.0	3.4
Iran	9,110	648.0	7.1
Jordan	575	98.0	17.0
Lebanon	1,435	49.0	3.4
Nepal	868	4.8	5.5
Pakistan	17,850	652.3	3.7
Saudi Arabia	2,790	375.0	13.4
Turkey	8,700	353.0	4.1
Congo (Kinshasa)	1,910	95.0	4.9
Ethiopia	1,703	41.4	2.4
Ghana	2,097	43.0	2.1
Liberia	289	3.3	1.1
Mali	264	5.3	2.0
Morocco	3,319	94.0	2.8
Nigeria	6,000	150.0	2.5
Senegal	712	18.0	2.5
Tunisia	1,225	22.5	1.8
Argentina	23,830	514.0	2.2
Bolivia	976	17.7	1.8
Brazil	35,543	866.3	2.4
Chile	6,670	200.4	3.0
Colombia	7,070	96.9	1.4
Dominican Republic	1,370	30.5	2.2
Ecuador	1,609	26.6	1.6
El Salvador	945	10.7	1.1
Guatamala	1,786	17.0	1.0
Honduras	685	9.8	1.4
Mexico	33,200	220.8	.7
Nicaragua	772	11.8	1.5
Panama	1,016	1.3	.1
Paraguay	588	11.8	2.0
Peru	5,650	19.6	3.5
Uruguay	2,145	44.0	2.1
Venezuela	9,639	200.0	2.1
Austria	13,810	165.4	1.2
Belgium	25,120	690.0	2.7
Denmark	15,730	370.0	2.4
Finland	10,180	160.7	1.6
France	145,890	5,905.0	4.0
Germany Federal Republic plus West Berlin	185,500	6,190.0	3.3
Iceland	487	0	0
Ireland	3,864	NA	NA
Italy	91,800	2,315.0	2.5
Luxembourg	968	8.3	.9
Netherlands	31,270	1,080.0	3.5
Norway	11,170	375.0	3.4
Portugal	6,350	400.0	6.3
Spain	32,440	1,166.0	3.6
Sweden	31,360	112.9	3.6
Switzerland	20,510	413.3	2.0
United Kingdom	116,540	5,950.0	5.1

Note: GNP and defense expenditures are the latest figures available for all countries; figures for all countries are for 1969 or later except Mali, Malaysia, Nigeria, and Jordan.

Mr. McEwen. I looked at that and I raised a question some days ago. A great many of those are listed as not available. For instance, Portugal is marked "not available." It would seem to me about half of them have no figures.

Mr. Hathaway. What concerns me is that the Comintern, even under Stalin, changed its direction from trying to promote world

revolution to enhancing the national structure of Soviet Russia. Isn't that true?

Mr. CHAPMAN. It became a national view of Russian policy.

Mr. HATHAWAY. Could not the increase in the Soviet Navy and so forth be simply to enhance that one objective, and not have anything to do with taking over the world, except to the extent that they want to influence various countries to deal with them economically, to enhance their own national picture?

Mr. CHAPMAN. The motives are mixed, but verbally they remain revolutionary, and there is no evidence that they will not promote their own national interest by using Communist ideology wherever they can.

General WARREN. One of the things that concerns Defense in that regard is that if Russia controls the Mediterranean and the Persian Gulf area, she can cut off all the oil that West Europe and Japan are getting from that part of the world. It could become a serious situation. However, this does not seem to be the most imminent or likely threat. The threat might be posed by the oil-producing nations themselves.

Mr. HATHAWAY. Include in the record the percentage of the amount of oil we get from that part of the world.

(The information follows.)

THREAT IN MEDITERRANEAN AND MIDDLE EAST TO U.S. AND NATO OIL SUPPLIES

The ability to interrupt oil shipments from areas containing three-fourths of the free world's oil reserves, and currently providing Europe with 80 percent of its oil supply is impressive. The United States now obtains only a small percentage—about 2 percent—of its needs from the Mediterranean and Near Eastern areas, but that percentage is expected to grow substantially in this decade, and could approach 20 percent by 1980. Interruption of NATO oil supply lines from the Mediterranean and the Arabian Gulf might cause the United States to share the few remaining free world oil resources with our allies, further reducing the amount of oil available to fuel our own economy and military forces.

Mr. GALIFIANAKIS. That is one of the critical problems in the world, today.

General WARREN. I read about Libya threatening to cut off oil. I don't have all the details.

RESULT OF ELIMINATING MAP TO INDONESIA

Mr. HATHAWAY. What would happen, for example, to pick a country at random, if we cut off the military aid we are now giving to Indonesia? What do you foresee would be the result of that?

Mr. CHAPMAN. Indonesia receives a relatively modest grant program relative to its size. As you know, Sukarno was overthrown in 1965. This is a new, moderate regime that has been in place since then. It has set its national priorities as economic development, to restore the economy of the country as a first priority, and the armed forces have been maintained at a subsistence level. There has been no effort to increase their budget for armaments, so they are beginning to have problems in maintaining their equipment. There is no intent on our part to build up a major force. The purpose of what we are providing them is to improve their maintenance capabilities, their logistics capabilities, and give them a means to operate what equipment they have.

If we were to provide them no grant, they would simply somewhere

down the road have to use some of their own resources for their defense demands.

Mr. HATHAWAY. This would result in some insurgent group taking over in Indonesia, as happened before.

Mr. CHAPMAN. There is still insurgency capability there. The army has controlled it very well now, so there is a need to maintain a security capability. I would not make the case that our grant program is going to make all the difference. All I am saying is they would reallocate resources to make sure that their forces were able to control the situation.

Mr. HATHAWAY. And is there evidence that the group could be controlled by China?

Mr. CHAPMAN. Peking has maintained an interest in Indonesia. What the strength of the Communist party controlled by China is now I do not know, but I will be glad to furnish what intelligence we have.

SECURITY AND ECONOMIC IMPACT OF MAP REDUCTION

Mr. HATHAWAY. What if these countries did succumb to some insurgent group that became Communist? How far could we cut back before our own security was jeopardized? Presumably if another group took over, then the economy of that country would still survive. It may not be as good as it was with American aid. It might go down to the level of Albania, but nevertheless, it would be a relatively peaceful country. Why is our own national security jeopardized by such a country being taken over by some force we don't necessarily get along with?

Mr. CHAPMAN. I don't make the case if we were to cut down some of these small programs that we would be looking down the barrel of a Soviet or Chinese rifle. In considering the problem, it is just what will happen over a number of years if those countries feel the United States is no longer to support them as we have in the past, and in effect has changed from a policy of trying to maintain stability and security worldwide to a policy of withdrawal. There would be realinements worldwide. There is a fine political balance worldwide. There has been no country except for Cuba that has gone Communist willingly. Chile, now, of course, has voted in a president who is very close to the Communist party, but even there the situation is not altogether clear.

But if the perception world wide was that the United States was withdrawing, that the Communist regimes were gaining, then there would be a certain policy for countries to adjust their relations with the Soviet Union and Communist China.

Mr. HATHAWAY. Except for the countries that affect our economic interests, such as in the Middle East where we for national security reasons might need that oil, why should we be giving aid to others, like, well, Taiwan, or Indonesia, where there is no economic interest as far as the United States is concerned?

Mr. CHAPMAN. We have a treaty commitment with Taiwan, and there is no more economic assistance. Taiwan is on its own, and in fact is providing assistance to other countries, itself.

Mr. HATHAWAY. Presuming the treaty could be revoked.

Mr. CHAPMAN. ———.

Mr. HATHAWAY. To look at it coldly, we could say no economic interest of the United States is affected.

Mr. CHAPMAN. Our annual trade with Taiwan now amounts to over $1 billion a year.

Mr. HATHAWAY. It isn't anything we couldn't do without. It isn't like Libya would be if we should lose the oil.

Mr. CHAPMAN. That is right.

With regard to the oil in the Middle East, the impact is not so much directly to the United States, but the impact would be very directly in Europe and Japan, which depends very heavily on Middle Eastern oil, and so you would have some of our principal allies who would be caught in a very bad energy squeeze.

Mr. HATHAWAY. Thank you, Mr. Chairman.

U.S. ASSISTANCE TO INDONESIA

Mr. PASSMAN. With respect to Indonesia, if my memory serves me correctly, at one time they procured all of their military hardware from Russia.

Mr. CHAPMAN. $850 million.

Mr. PASSMAN. At one time it topped $1 billion, I believe.

Mr. CHAPMAN. Yes, it reached that.

Mr. PASSMAN. During the time they were buying Russian military hardware, we had an aid program going into Indonesia.

Our total economic aid to Indonesia from 1946–69, I believe, was $1,051,900,000, and $219.5 million has been repaid, leaving a net total of $832,400,000 of U.S. aid to Indonesia. Some of this aid was going to Indonesia at the same time they were procuring military hardware of about $1 billion from Soviet Russia. Isn't that about the way the record reads?

Mr. CHAPMAN. The economic aid figure of $1,051.9 represents economic aid given during the period from 1946–69. During the period from 1953–65, when Sukarno was in control and Soviet assistance was being received, U.S. economic aid amounted to $350.3 million. During the last 4 years of the Sukarno period, from 1962–65, U.S. aid totaled $74.3 million.

Indonesia repaid $219.5 million from 1946–69. The amount rescheduled by the recent rescheduling agreement was $215.6 million, which included interest to be accrued as well as principal in default. While $308.2 million of the $1,051.9 million aid total was given as grant aid, the major portion of the $743.7 million in loans has either been repaid or has not yet fallen due.

Mr. PASSMAN. The reason I wanted to get this in the record is because recently I had two men from the State Department come down to discuss Indonesia with me.

Apparently they worked out a proposition with Indonesia so that she can pay off her indebtedness to all nations on longer terms. Are you familiar with that?

Mr. CHAPMAN. That is right.

Mr. PASSMAN. It may be that with this agreement worked out with the Soviet Union as well as the United States and other creditors,

these people may receive a needed lift in their economy and perhaps to some extent would allow this committee to consider making some reduction in economic aid being requested for Indonesia.

PASSMAN-CONTE-LONG AMENDMENT

Now, if I may very briefly proceed, at one time we had the so-called Passman-Conte-Long amendment limiting the sale of sophisticated equipment to the so-called developing nations. However last year this provision was knocked out on the floor of the House on a point of order.

Now you people are operating under a similar provision contained in the legislation passed by the Foreign Affairs Committee, are you not?

General WARREN. That is right.

Mr. PASSMAN. It breaks my heart to have to admit that, but we don't want to fly under false colors. You are working under a Foreign Affairs Committee provision at the present time.

I thought we should get the record straight. I guess we will just have to bear up under the embarrassment and realize it is not this committee's amendment you are operating under. It is a Foreign Affairs and Foreign Relations Committee provision, is that right?

General WARREN. That is right.

DEVELOPMENT OF COUNTRY PROGRAM

Mr. PASSMAN. I wish you would have another look at the situation in Morocco. Earlier today, I inserted in the record materials dealing with the situation in Morocco as it existed in 1960 and covered in our fiscal year 1961 hearing. I think it is important to have an understanding as to how the military assistance program is finally brought into being. The military assistance program is a dual proposition between the State Department and the Defense Department, is it not?

General WARREN. Yes, sir.

Mr. PASSMAN. I refer jokingly to the generals down at the State Department who travel in regular dress and the generals out at the Pentagon who wear the stars. But they are both generals as far as this program is concerned.

Now, each one of these programs starts at the country level, does it not, with your MAAG chief, and with the ambassador and with the leaders in a particular country in determining the country's requirements?

General WARREN. Sir, that is where the work starts.

Mr. PASSMAN. I am talking about the work. I am not talking about the final decision. I will lead into that. That is, after you determine the needs of a particular country in consultation with the leaders in the country and your MAAG chief, what lead does it move to then?

General WARREN. To the unified command level, such as Admiral McCain's headquarters for the Pacific.

Mr. PASSMAN. Then where does it go from there?

General WARREN. It comes to the Office of the Secretary of Defense, and to my office for final programing.

Mr. PASSMAN. Then it makes the trip down to the Director of the Budget, does it not?

General WARREN. We coordinate our programs with the Office of Management and Budget because we have to go there for apportionments of the money. But basically the State Department and Defense Department approve the programs for military assistance.

Mr. PASSMAN. And the request is screened and checked along the way as to the actual needs?

General WARREN. Yes, sir.

Mr. PASSMAN. So it moves from the country involved, to the unified command, then into Washington to the Defense Department, then you coordinate with the State Department, and finally the Office of Management and Budget makes the final decision as to what amount will be recommended to Congress, is that correct?

General WARREN. That is correct, sir, except we provide the MAAG's in the field the broad guidelines for each year's program. Our guidelines include objectives, dollar guidance, and other necessary information.

Then the MAAG's start the detailed planning that you describe.

Mr. PASSMAN. You give them the guidelines, but nevertheless, the program is worked up in the country?

General WARREN. Yes, sir.

Mr. PASSMAN. We are trying to see if these requests have had the proper screening before they finally reach the Hill.

General WARREN. I understand, yes, sir.

Mr. PASSMAN. I know, but have they had?

General WARREN. In my opinion, yes, sir.

Mr. PASSMAN. Does the budget request usually follow the recommendations of the team out in the countries, or are they modified?

General WARREN. Well, sir, in the last 2 years when we have had severe cuts imposed on our program, or the money the President requested has been reduced, we have requested that our field MAAG's line up their requirements in an order of priority, so we could cut them off at any given level.

Mr. SHRIVER. What percentage of military hardware given to other countries is purchased in the United States?

General WARREN. Practically all of it is, sir. The only way you can buy overseas is with a very special waiver, which the Secretary of Defense can approve.

Mr. SHRIVER. The President can lift the restrictions, too, can he not?

General WARREN. Yes, sir, but there have been very few exceptions.

PURCHASE OF AUSTRALIAN TRUCKS FOR CAMBODIA

Mr. SHRIVER. Why were restrictions lifted about the first of this month with regard to trucks purchased in Australia for Cambodia?

General WARREN. First, Australia could deliver those trucks which were needed immediately in Cambodia primarily to haul this year's rice crop. ———.

Mr. SHRIVER. I know, but they are made there, and the labor costs are in Australia and not in this country where we have high unemployment.

General WARREN. That is correct, sir. It was a question of delivery time and cost, with the delivery time being the critical reason that we decided to go that way. ———.

Mr. SHRIVER. And we didn't have any surplus trucks over in that area anyplace—in Korea or any of the countries we have given trucks to?

General WARREN. I was informed we had no trucks that could do the job. The surplus commercial trucks, as a general rule, require rehabilitation. There were no trucks that our forces in South Vietnam felt could meet the requirements.

Mr. SHRIVER. And to have it in a hurry, you say.

General WARREN. Yes, sir.

Mr. SHRIVER. How many trucks ———.

General WARREN. I do not remember the exact number, sir. May I put it in the record?

Mr. SHRIVER. I have them before me.

Mr. CHAPMAN. ———.

Mr. SHRIVER. You have technicians who are out of work here, too.

Mr. CHAPMAN. As you know, there are restraints on U.S. advisers in Cambodia.

Mr. PASSMAN. Could you tell us how much the Australians are buying from our country for cash and shipping to people in the Far East?

Mr. CHAPMAN. I will provide that for the record.

Mr. PASSMAN. It is really none, isn't it? Do you know of any commodities the Australians are buying in the United States and shipping to these nations?

Mr. CHAPMAN. I don't know of any.

OFFSHORE PROCUREMENT

Mr. PASSMAN. Is this what we usually refer to, General, as offshore procurement?

General WARREN. Yes, sir.

Mr. PASSMAN. Would you place in the record our offshore procurement for the past 4 fiscal years and an estimate for fiscal 1971?

General WARREN. For the military assistant program only?

Mr. PASSMORE. Yes, sir.

General WARREN. Yes, sir.

Mr. PASSMORE. I think that would answer all the questions as to whether the trend is up or down concerning offshore procurement.

(The information requested follows.)

Off-Shore Procurement

[In Millions]

Fiscal year:	
1967	$49.4
1968	43.9
1969	25.4
1970	25.2
Estimated fiscal year 1971	18.2

General WARREN. If I may repeat one important point Mr. Chapman brought up. ———. We can't move advisors into Cambodia due to a lot of restrictions. From an operational standpoint, if this is successful, it may permit us to arrange for other assistance that we can't provide with U.S. people.

AUSTRALIAN MILITARY ASSISTANCE IN SOUTHEAST ASIA

Mr. SHRIVER. How much military assistance is Australia giving to Indochina?

General WARREN. To Cambodia?

Mr. SHRIVER. Or Vietnam. They are in that part of the world that might be affected by the advance of Communism.

General WARREN. Of course, Australia has some troops, but they are not in Cambodia or Laos.

Mr. SHRIVER. Do they have a military assistance program?

General WARREN. They do, and they provide some assistance to South Vietnam. I do not know what they might be providing to Cambodia ———.

May I provide it for the record, please, sir?

Mr. SHRIVER. Yes.

(The information follows.)

AUSTRALIAN AID—SOUTHEAST ASIA

Total Australian aid for Cambodia through fiscal year 1970 is projected at $2 million (Australian). Of this total, ——— clearly is for economic aid, and ——— is for essentially military aid. Final disposition of the balance ——— has not yet been determined; however, much of it is likely to go for military assistance. In some cases, it becomes difficult to assess the appropriate category of assistance, since any type of aid can be considered, at least indirectly, as contributing to the national defense of Cambodia. As examples, Australia is providing several ——— entirely at its own expense ——— Australia is providing ———.

As for Vietnam, Australia has provided a peak force of about 8,000 men, which will gradually decline to about 6,000 men this fall. Australia has announced increasing actions in the area of training, civic action, and economic aid as its contribution of combat forces diminishes. Specifically, Australia announced a 3-year (fiscal years 1971–73), $30 million (Australian) aid program to Vietnam, which will include both economic and military assistance.

Australia is not providing any military assistance to Laos.

"UNTYING" U.S. ASSISTANCE

Mr. PASSMAN. I have read in the newspapers and the President's message of September 15, 1970 that new proposals will include crediting countries with U.S. grant funds and letting them buy commodities where they want to. Is that the trend, Mr. Secretary?

General WARREN. There is no such program contemplated in the grant aid, sir. I have never heard of that.

Mr. PASSMAN. I am sure some of you read it in the paper. It was certainly there and also there has been a document sent to Congress on the subject.

I see one head shaking. Are you familiar with it?

Colonel BURDELL. I am not familiar with the details, but I read about it in the newspapers.

Mr. PASSMAN. We will credit them with the money, and they buy the commodities where they want to.

Mr. CHAPMAN. You may be referring to the President's decision to untie some of our aid to Latin America.

Mr. PASSMAN. I am only talking about the general statement that I read, whether it is restricted to South America or applies to any other part of the world. I don't know how the committee feels, but as far as I am concerned, if you are going to give our wealth away, at

least let the countries spend it in America. Let American manufacturers benefit from our generosity. After all, this balance-of-payments situation is very frightening, is it not, Mr. Secretary?

Mr. CHAPMAN. I quite agree.

Mr. PASSMAN. We are sending out more dollars than we take in, so I just think we had better have a closer look at it.

RESTRICTIONS ON MILITARY ADVISORS IN CAMBODIA

Mr. MCEWEN. You referring to ———.

General WARREN. Civilian.

Mr. MCEWEN. I suppose you referred to the restrictions of the Cooper-Church amendment. That prohibits such American technicians from going in.

Mr. CHAPMAN. I am not sure what the legal interpretation would be, but the policy is that there will be no U.S. advisors in Cambodia.

Mr. MCEWEN. Does this include civilian technicians?

General WARREN. We have decided in every case they should be prohibited.

On the other hand, ——— it is most important to our interests over there.

Mr. MCEWEN. It is important to theirs, too. I understand there was a restriction on American military personnel ground forces being in these countries but, Mr. Chairman, until this moment I didn't know there was any restrictions on American civilians. We might have some peddlers selling something, but I didn't know there were any restrictions.

General WARREN. The only restriction I am aware of is the President's statement that he would not put U.S. advisers in there. The only U.S. personnel that we have in Cambodia right now, sir, other than embassy staff, are part of an equipment delivery team which is, I believe, all military at the moment. There are about 16 people who are attached to the embassy and the other part of the team is back in Saigon. I think there are a total of slightly more than 100 people on the team to handle the deliveries of some ——— of equipment, which has been either funded or requested for next fiscal year.

Mr. MCEWEN. With regard to this ——— would we not normally have American personnel there with regard to the maintenance and operation of this equipment to advise them?

General WARREN. We normally would in other countries, but not in Cambodia, because of the policies the President announced, that we would put no ground combat units and no advisers with Cambodian units.

Mr. MCEWEN. We are not going to have civilian technicians there then?

General WARREN. I know of no plans to put civilians there.

Mr. MCEWEN. Who is going to perform this? Are we going to permit ——— to do this work? Is there going to be somebody employed to do this?

General WARREN. In the case of the ———. My remarks were directed to the future, in case there were a requirement for technicians. Right at the moment there is no consideration being given, that I am aware of, to send any technicians in, other than the delivery team

people. It would certainly be important to be able to use technicians in the future, if things remain as difficult as they now seem to be in Cambodia.

MAP FOR CAMBODIA

Mr. McEwen. I wasn't referring to the figures. You said ——— for Cambodia.

General Warren. I was adding this up, sir. The 1970 figure was $8.9 million, the 1971 figure was $185 million, and the figure for fiscal year is ———.

Mr. McEwen. So it is approximately ——— for 2 years.

General Warren. Sir; it is $8.9 million for 1970, $185 million for 1971, and ——— for 1972 that we are requesting here, for a total of about ———.

Mr. Passman. Will the gentleman yield at this point?

Mr. McEwen. Yes.

Mr. Passman. Let's add to that $341,300,000 that we had given to them before they broke off diplomatic relations.

ALTERNATIVE TO PROVIDING U.S. ADVISERS

Mr. McEwen. Am I correct in assuming that normally there would be advisers, technicians, whatever name you want to apply to them, American personnel that would go with that amount of military assistance to advise them, to take care of technical problems with regard to maintenance operation of the equipment?

General Warren. Yes, sir. What we have is a military equipment delivery team in Cambodia. The President has stated we will not have any U.S. advisers with Cambodia units.

Mr. McEwen. Military or civilian?

General Warren. Both, sir.

"UNTYING" ASSISTANCE TO RECIPIENT COUNTRIES

Mr. Passman. Thank you. This is a nonpartisan committee. We all work together as a team, so when I quote the President, I do it so that you will know the source of the information. I will read from House Document No. 91–385, dated September 15, 1970, page 3:

> I am ordering the elimination of those tying restrictions on procurement which hinder our investment guarantee program in its support of U.S. private investment in lower income countries.
>
> I propose that all donor countries take steps to end the requirement that foreign aid be used to purchase goods and services produced in the nation providing the aid. Complete untying of aid is a step that must be taken in concert with other nations; we have already begun discussions with them towards that end. As an initial step, I have directed that our own aid be immediately untied for procurement in the lower income countries themselves.

U.S. aid is going to these lower income countries, isn't it, Mr. Secretary?

Mr. Chapman. Yes, sir.

Mr. Passman. This is even more frustrating than I had originally thought, because our aid is now going to these countries. You are not giving it to the wealthy countries. This will be in the record for the committee's consideration.

Gentlemen, are there any other questions?

Mr. GALIFIANAKIS. I guess I have asked too many today.

Mr. PASSMAN. You could never ask too many questions.

U.S. RELATIONS WITH ECUADOR

Mr. GALIFIANAKIS. What is our relationship to Ecuador insofar as selling to them?

General WARREN. We have cut off all FMS and grant deliveries, sir.

Mr. GALIFIANAKIS. For how long a period?

General WARREN. Indefinately, sir.

Mr. GALIFIANAKIS. When was the last time that they made a purchase?

General WARREN. In early September 1970. We had a total grant aid undelivered balance for that country, as I recall, of about $2 million. I have the program here going back over the years. We have stopped any further deliveries to Ecuador. The law requires if there is a fishing boat seized that sales be cut off immediately, which is automatically done by the State Department. In the case of Ecuador, shortly after our sales were cut off, that government ordered the withdrawal of our military group. With that withdrawal, our MAP was ended. Their total program has been extremely small. From 1966 through 1970 the total was $2 million in foreign military sales. They really aren't very significant.

Mr. GALIFIANAKIS. Was there any degree of accuracy to the reports that some of the vessels that they had either bought or borrowed from us were the vessels that were boarding American fishing vessels off the western coast?

General WARREN. On certain occasions they probably were U.S. ships that we had on loan to Ecuador.

Mr. GALIFIANAKIS. There were two or three articles that stated they were. Does the reason for the discontinuance and taking them off the list arise over the fishing rights?

General WARREN. I think it was over the fact that they seized something like 26 of our fishing boats in the last few months. May I add a point. With regard to Ecuador, our MIL Group, which is comparable to our military assistance advisory group, was out of there on March 5, 1971. We are moving out of Ecuador, and all military assistance has been suspended.

CONSEQUENCES OF MAP SUSPENSION

Mr. GALIFIANAKIS. What do you envision the consequence of the discontinuance will be? Do you envision that this will be an invitation to the Soviet Union to come in and negotiate?

General WARREN. I think, just as a broad statement, that the Soviet Union is moving into Latin America gradually and quietly anywhere she can get in, first with an economic trade mission and things like that, and then here and there a legation. I would like to ask Mr. Chapman if he has any additional comments.

SOVIET INTEREST IN LATIN AMERICA

Mr. CHAPMAN. So far, the Soviet interest in Latin America has been as the General indicated, to open up relations with the countries with which they had had no relations, and to open up trade missions also. There has been a Soviet Minister in the last few weeks going around to look over the market, and some of the other countries I believe have reached trade agreements with the Soviet Union. So far, to the best of my knowledge, there have been no offers of military assistance on the sale of arms, but as the General indicated, there is a real possibility.

CONFERENCE ON FISHING RIGHTS

Mr. GALIFIANAKIS. The fishing rights may be settled. This is a tough question, I guess, because no one knows what the territorial limits are. We need an international conference of the sea to settle a lot of this.

Mr. CHAPMAN. We are working toward an initial conference on the sea in 1973.

Mr. GALIFIANAKIS. I am delighted to hear that. I will get some additional information. Is that already scheduled?

Mr. CHAPMAN. That is already scheduled. I don't know the date yet, but that is the target year, and work has been proceeding.

COMPARISON OF U.S. AND FOREIGN ARMS COSTS

Mr. PASSMAN. Mr. Chapman, in many areas we have just priced ourselves out of the world market, and I think maybe the President's recommendation, to untie the restrictions on dollar purchases is an indication that we are priced out of the market now. I am afraid we are spending money we don't have, for things we don't need, trying to provide everything to everybody, everywhere and we have just priced ourselves out of the world market. Are you familiar with the commodities that Latin America may be buying from our competitors and can you tell us how our prices compare with those of the U.K., West Germany, France and Italy. I think it would be good to know whether we are still competitive on military hardware. Will you put something in the record on that?

General WARREN. Yes, sir.

(The information follows:)

There is no single answer to the question of U.S. competitiveness with European sources on defense equipment. The United States has a competitive advantage (a) when the item has a large production run and a correspondingly low price associated with economies of scale, (b) when the item has the highest available capability and quality—as is often the case, (c) when the buyer (e.g., Australia) has a strong desire to orient its forces on U.S. equipment. On a price basis, the U.S. is often at a disadvantage because of high overhead and labor rates. The U.S. also often loses in the international marketplace when other selling governments take extraordinary action (a) to reduce prices, (b) offer concessionary credit terms or (c) agree to make offsetting purchases from the buyer. Finally, the United States is, of course, estopped from any competition of any kind with foreign sources when either of the two statutory regional ceilings ($75 million in Latin America and $40 million in Africa) has been reached.

PRESIDENTIAL DETERMINATION FOR SALE OF SOPHISTICATED EQUIPMENT

Mr. PASSMAN. Concerning the amendment that prevents the sale of sophisticated equipment to developing nations, I believe the President can without exception, as long as he stays within the limitation, issue Presidential determinations making these sales.

General WARREN. Yes, sir, that is correct.

Mr. PASSMAN. Are there any other questions? Mr. Roybal?

LIMITED SOVIET MILITARY EQUIPMENT IN LATIN AMERICA

Mr. ROYBAL. I have one, Mr. Chairman. I got the impression from testimony last week that whenever the United States moves out of Latin America, that the Russians move in. Now you tell us that the Russians do move in to establish diplomatic and perhaps trade relations, but that they have made no effort to sell or provide arms and ammunition to the Latin Americans. Was I mistaken in assuming that the original testimony was correct? What is the situation?

Mr. CHAPMAN. The situation overall is that many Latin American countries are trying, like many countries elsewhere in the world, to develop their diplomatic relations with the Soviet Union and the Soviet bloc and expand their trade. They are having trouble in the Western market selling some of their produce like bananas and coffee, and the kinds of trade agreements they are trying to reach is to find a new market for this produce, and get equipment from over there. I may be wrong on this and we will check, but to the best of my knowledge there has so far been no serious effort on the part of the Soviet Union to provide arms.

General WARREN. This is correct, sir. In fact the only U.S.S.R. military aid, other than to Cuba, that I am aware of is that they provided some GAZ jeeps some time ago to Colombia. They are being used by the municipal police in Bogota. They are not yet selling any military equipments of any importance down there.

RESULTS OF FURTHER REDUCTIONS ON MILITARY SALES AND MAP TO LATIN AMERICA

Mr. ROYBAL. What would happen then if we reduced our military sales and assistance to Latin America, let's say, by half?

General WARREN. It would throw another $50 million to Europe. I think it is quite simple. We restricted ourselves to $75 million, and France and the U.K. moved in and picked up ——— in business in the last 2 years, so if we cut our sales further, just that much more would go to Europe.

MAP ONLY FOR TRAINING IN LATIN AMERICA

As far as the grant aid goes, sir, they are only small training programs. In the case of Ecuador, for example, we have programed ——— for training only in fiscal 1972. In fact all of the Latin American countries—there are 17—have programs well under $1 million. All of them receive only training with no hardware programed at this time.

Ecuador obtained from free world countries about ——— in military equipment in the last 6 years and last year—in 1970—some ———.

Mr. ROYBAL. Then the statement that probably was made was that as we move out, other countries move in, and I perhaps assumed that that statement meant the Soviet Union.

General WARREN. It could, but I don't think it has so far.

OBJECTIVES OF MILITARY ASSISTANCE PROGRAM

Mr. ROYBAL. I am interested in getting clarification of a statement in the international security assistance program presentation. It says that the objectives of the military assistance program for Latin America are two principally, to help maintain military and paramilitary forces capable of providing, with police forces, "The internal security needed to facilitate orderly political, social, and economic development." So far I think I understand it, but then it goes on to say:

And to help Latin American armed forces develop civic action capabilities.

What does that mean?

LATIN AMERICAN MILITARY ROLE IN CIVIC ACTION

Mr. CHAPMAN. I think the view has been that the best way to maintain internal security, as there was no external threat, was to help the Latin American armed forces to use what they had, bulldozers, trucks, men, to help in civic action type activities, building bridges, roads, provide health clinics, provide education in the outlying areas.

Mr. ROYBAL. In other words, what we are saying is that we agree with the concept of some Latin American countries that they control everything, the military, civic and the social life of the country.

Mr. CHAPMAN. No, I don't think so, sir. I think it is just a supplement. In the armed forces you have a body of men, a body of capabilities, both human and physical, and you just try to use these capabilities for some positive purpose for the society.

Mr. ROYBAL. Because very frankly I have never talked to any Latin American, either in the Latin American country or in the United States, who believes wholeheartedly that their country, whichever country it happens to be, has to be run solely by the military. In fact there is a definite opposition to the military running the country as a whole.

Mr. CHAPMAN. I don't think anyone in this government would support the proposition that our policy is to encourage the military in running these societies.

Mr. ROYBAL. Isn't that what this is?

Mr. CHAPMAN. If that interpretation is put to it, then it is badly framed, because that is not the intent. Civic action is the use of the military capabilities for civilian purposes, but it is not to run the health and education ministries of these countries.

Mr. ROYBAL. That is just like saying that the military should run the city of Los Angeles or Chicago or anything else.

Mr. CHAPMAN. Not at all, sir. What you have, in outlying districts you have a post of engineers and with a health clinic, and you use those capabilities to help out the teachers and civilians in their effort.

Mr. ROYBAL. This is fine if it works that way.

Mr. CHAPMAN. It is not to supplant them.

Mr. ROYBAL. It hasn't been working that way in Latin America. This is why we have coups and countercoups and complete dissatisfaction on the part of civilians in Latin American countries. This is also the reason why we have the military living the life of Riley while the rank and file individual in Latin America is practically starving. This is where the big objection comes from people in my district and I suppose in other districts in the United States. We provide millions of dollars to help promote the military and nothing for education, for community development and things that are needed in those communities. If this particular criticism continues throughout the United States, then we are going to have a problem I think in passing any legislation that includes military assistance.

I think the time is going to come when there is going to be a division. Aid will be one bill and military assistance will be another. I also feel if this had happened 3 or 4 years ago we probably would not have passed military aid the way things were going then, so if we are going to do something about many of these objectives, I think we shouldn't put it down in your conditions or your objectives, because to me it clearly indicates a real desire, on the part of the American Government, to give its blessing to the military's intervention into civic development.

Mr. CHAPMAN. That is certainly not the intent. To put things in perspective, the military assistance program is limited to about $10 million, and only for training now. One of the purposes of the training is to improve the professionalism of Latin American officers and men, and to also improve their technical capabilities, which has some side uses in civilian economy, and not to encourage them to assume political power.

Mr. ROYBAL. Then I think this paragraph should be clarified. At least that is the way I interpret it and I am sure others who read it would interpret it the same way.

OBJECTIVES OF CIVIC ACTION

General WARREN. Could I comment briefly? This civic action, that you are discussing, has nothing to do with getting into the Government. These are projects such as road building, sanitation improvement, medical assistance, and even basic education classes that would help the community. They have nothing to do with politics; they are projects designed to improve the life of the people. Our grand total, worldwide, for civic action is about $23 million. In Korea there are a number of projects consisting of helping build barracks for Korean forces, erecting fences, putting in electric lights, constructing roads and bridges, this type thing. They are good projects which use the local countries military manpower and know-how to help their economy with projects of importance to them, and important to the people. They don't cost too much, but they do engender a lot of good will. In Latin America we have no money for it, except in the training program, but we do encourage their military to do worthwhile things in the civic action field.

Mr. ROYBAL. I understand that. I understand the objectives as far as you are concerned personally, but I am only saying that the language here is somewhat misleading.

General WARREN. Yes, sir.

Mr. ROYBAL. And I also feel that unless it is clarified, we are going to have a dickens of a time defending the bill, in the House and in our own districts.

MILITARY TRAINING LEADS TO DEMANDS FOR MILITARY EQUIPMENT

Mr. PASSMAN. I wonder if we shouldn't set the record straight again, inasmuch as in previous years the statement I am about to make was verified as being correct. You speak of small training programs in Latin America. You train these people in the use of military equipment, do you not, in the use of sidearms and other type equipment and train them concerning the general aspects of a military complex, isn't that correct?

General WARREN. Some, sir.

Mr. PASSMAN. What do you do with the others? If you are providing military training, you wouldn't train a man to raise chickens. I don't want to be facetious but let's pin this down. It is military training, and this entire course is based around a military training course, is it not?

General WARREN. This is correct with hundreds of different subjects, Mr. Chairman.

Mr. PASSMAN. I know that. I am very grateful but let me make my point, General. You usually progress from military training to military equipment. Mr. McNamara used to say this was not the case. You would have gotten the impression from him they were training these people for fun but it follows nevertheless that we had inserted in the record a number of nations who moved from military training to military equipment. It is a sure thing if you provide military training to these people, the next thought will be, "We want some equipment," and if we don't give it to them somebody else will. Isn't that a general statement that is pretty factual?

General WARREN. Yes, sir.

Mr. PASSMAN. Let's face up to it. It doesn't make a bit of difference whether we provide training or equipment. One definitely leads to the other, and I certainly support Mr. Roybal. We had better get this language straightened out here or we may have trouble with this bill because foreign aid this year is just about as fouled up as it has ever been since I have been chairman of this committee. We don't know which way we are going, and unfortunately some of the people downtown, certainly not the President, but those who have been there for sometime, don't know in which direction they are traveling. Some people are not satisfied with what they see in the making. There is not a person downtown who knows when the new legislation is actually coming to Congress.

Any other questions, gentlemen?

General WARREN. Mr. Chairman, may I insert in the record the definition of civic action, which is four short paragraphs, if that is agreeable?

Mr. PASSMAN. Without objection, General, it will be inserted in the record at this point.

(The information was supplied to the committee.)

FUNDS FOR LAOS, THAILAND, AND SOUTH VIETNAM

Mr. RIEGLE. In addition to the $5.2 billion that is being requested for security assistance programs, there is money in the Defense budget to cover Laos, Thailand, and Vietnam. Would you tell us what that amount is going to be this year (fiscal 1972) and what was expended last year (fiscal 1971)?

General WARREN. The service-funded program covering Laos, Thailand, and Vietnam will total $2,230.8 million in fiscal year 1972. In fiscal year 1971 it was $2,252.2 million.

MEASUREMENT OF A COUNTRY'S IMPORTANCE TO THE UNITED STATES

Mr. RIEGLE. Does the dollar volume of weapons going into a country bear any relationship to our own national security or do you have some other measurement for determining which countries are most vital to the United States?

General WARREN. The strategic value of a particular country or area is certainly one of the primary considerations upon which we base our determination to provide security assistance, as well as what level of assistance and in what specific forms. However, there are several additional factors which are considered in overall planning of security assistance. The level of economic development of the country, and thereby its ability for relying on its own resources to provide security needs is also considered in determining whether to provide grant assistance, credit and under what terms, cash sales or in some cases providing no assistance of any kind where the country is completely able to satisfy its needs from domestic resources. In determining needs or requirements of a country, we try to make a joint analysis of the threat faced by the country and then draw up requirements based on this threat. It is natural that we do not always agree with the particular country as to the threat they face. To the extent possible, however, we try to prevent excessive procurement of military equipment which not only tends to draw scarce resources away from pressing nonmilitary needs, but also can lead to arms races. Another factor in security assistance planning is the extent of third country assistance. (We have tried wherever possible to introduce multilateral security assistance planning with our allies so that all our assistance programs provide maximum satisfaction of real requirements. We have not been as successful thus far as we had hoped possible in this area.) Finally we have in some countries specific local interests which security assistance helps to insure.

Mr. RIEGLE. Are all of these MAP funds and FMCS funds spent in the United States or do a portion of these funds get spent abroad? Include in your answer the moneys that are in the Defense budget for Laos, Thailand, and Vietnam? Who are the primary contractors in the United States that supply this material and what is the nature of the weaponry? Are any weapons systems being delivered whose use could be inimical to the U.S. security interests?

General WARREN. A small portion of the MAP funds does get spent abroad. For fiscal year 1971 and fiscal year 1972 these amounts are

estimated at less than 4 percent of the NOA. Funds provided for Foreign Military Credit Sales have never been used for purchases abroad. Of the moneys in the Defense budget for Laos, Thailand, and Vietnam some portion is also spent overseas but the data are not readily available; it would be a part of the U.S. defense expenditures in Vietnam and could not be segregated. The primary contractors supplying material to Laos, Thailand, and Vietnam cannot be separately identified from contractors supplying materials for all U.S. forces. The Department of Defense has furnished to this committee a listing of materials furnished to these countries. All programing is in furtherance of our security interest at the time of the programing and no weapons so programed would be inimical to U.S. interests.

MAP AND FMS TO COUNTRIES TERMINATING ASSISTANCE TO SOUTH VIETNAM

Mr. RIEGLE. Korea, Thailand, and Australia have all announced plans to pull their troops out of South Vietnam. How does this affect our giving or selling these countries armaments?

General WARREN. Australia, in April 1970, announced the withdrawal of one army battalion from South Vietnam. At the same time Australia announced the initiation of a new training program for South Vietnamese forces to be conducted by Australia. In September 1970, Australia substantially increased its aid program to Vietnam to the level of about $33 million over a 3-year period. A second withdrawal was announced in March of this year. Upon completion in the fall of this year, Australian forces remaining in South Vietnam will then comprise about 6,000 men compared with a peak of about 8,000 in 1968–70. This relatively modest reduction in combat strength—coupled with increased actions in the areas of training, civic action, and economic aid—is certainly understandable in view of the changing situation in South Vietnam and our own force reductions. In specific answer to your question, there has been no change in our policy with respect to any purchases of armaments in this country by Australia. We do not, of course, have a military assistance program in effect for Australia. It is noteworthy that Australian participation in the Vietnam conflict has been at no net cost to the United States, and the same holds true in the case of New Zealand. Both of these countries are paying their own way.

The Korean Government has not announced any redeployments. It has announced that it is studying the question of withdrawal of Korean forces from Vietnam; and that any decision made on this matter will be made in consultation with the GVN and other free world governments, including the United States.

The Thai Government has announced that about one-half of its ground forces in SVN will be withdrawn in July–August 1971, and the remaining ground forces in January–February 1972. Special U.S. support associated with these forces will cease upon these withdrawals. Other military assistance programs will not be affected.

MAP TO SOUTH AFRICA OR RHODESIA

Mr. RIEGLE. Are we currently or have we in the past given any military assistance to South Africa or Rhodesia; either in the form of

credits or grants? Is any country that practices a policy of apartheid getting help from the United States?

General WARREN. We have given no grant or credit military assistance to the Republic of South Africa or to Rhodesia. We are unaware of any other countries that practice a policy of apartheid.

EQUIPMENT FOR THIRD COUNTRIES

Mr. RIEGLE. How much of our military aid is "passed through" a country? That is have we ever sold or given military training or hardware to a country that ultimately ended up in another country?

General WARREN. The only military equipment that is passed from a recipient country to a third country is that which the recipient country declares excess to its needs and returns to the custody of the United States. This materiel, called "Redistributable MAP Property," if in a usable condition, can be reprogramed for a third country that is eligible for military assistance and that has a requirement for the materiel. In no case does the materiel pass to a third country without U.S. approval.

COUNTRIES PROVIDING MILITARY SALES

Mr. RIEGLE. Who are our competitors in the arms business? Would you rank the five top arms sales governments in the world today, and the dollar volume they export? Are there any private arms sales firms of any size in this business?

General WARREN. While our data are incomplete, the following is our estimate of free world sources of defense equipment for the period 1968–70:

Free world country:	*Annual average military exports*
United States *	$2 billion
France	———
United Kingdom	———
Federal Republic of Germany	———
Italy	———
Canada *	———

*Not counting $170 to $200 million in United States-Canada cross-border subcontracts.

We simply do not know the volume or value of defense equipment transfers between the U.S.S.R. and its Iron Curtain neighbors. But we have estimated ———.

UNSTABLE COUNTRIES RECEIVING U.S. AID

Mr. RIEGLE. Are we currently selling or giving arms or training to any revolutionary governments or group that has as its purpose the overthrow of an existing regime? How many countries are we currently assisting that you would consider politically unstable?

General WARREN. Assistance provided under our security assistance programs, either the military assistance program for grant assistance or the foreign military sales program for cash or credit sales, is carried out through agreements between the U.S. Government and the governments of the particular countries being assisted. We do not provide assistance under these programs to private groups or so-called revolutionary governments which are not the legitimate governments of states. Political scientists have found it difficult, if not impossible, to categorize countries as to the degree of stability they enjoy. In general, I feel that some of the developing countries to which we provide relatively minor security assistance have not reached the stage of

political development which might be termed stable. However, one of the necessary factors in achieving political stability in a country is the ability of the legitimate government to insure internal and external security of the Nation. We are trying to plan and coordinate our security assistance to these countries in such a way as to most effectively assist in achieving and maintaining this stability.

SELF-SUFFICIENT COUNTRIES

Mr. RIEGLE. Will any countries that we have been helping become self-sufficient this year? I am thinking of those recipients that you might be dropping from the list next year because they are militarily secure.

General WARREN. There are no countries that will, in the true sense, become self-sufficient during fiscal year 1971 or fiscal year 1972. We are reducing grant military assistance and increasing credit sales in as many countries as rapidly as economic conditions will permit.

AID TO CHILE

Mr. RIEGLE. Have we cut off all military assistance to Chile or is that aid continuing? What military assistance relationship do you have with the new Allende government? Please answer the same question relating to Greece.

General WARREN. We are continuing our military assistance to Chile, which consists of training only. This is in line with the President's foreign policy statement of February 25, 1971, in which he stated that our policy is to keep open lines of communication with the Allende government. We will of course continue to observe closely the evolution of Chilean foreign policy as it affects ourselves and other nations in the Inter-American system.

With respect to Greece, our relations are the same as with our other NATO allies. On September 22, 1970, the administration announced full resumption of military assistance to Greece.

Mr. PASSMAN. Gentlemen, we have had a very interesting session with the military, beginning with our distinguished Secretary of Defense, Mel Laird, and certainly you. General Warren. You have been coming before this committee for many, many years, and I have never known of a man any more forthright and a man who possessed more knowledge of the subject matter than you. I have never known of an instance that you didn't answer the question forthrightly whether it tended to help you make the case or tended to work against you. For that we are profoundly grateful and I feel I am speaking for every member of the subcommittee, especially the older members, that you are indeed a great witness. I have never attempted to go behind any statement you make, because I know it is made from the facts. Of course that applies to all of you gentlemen. Good luck. We will have a close look at the program, and when the committee marks up this bill we are certainly going to take into account that General Warren was the main witness who testified. This concludes hearings on MAP, unless some member of the committee should desire to call back some witness.

When we bring a witness before the committee we will go around the table on the 5-minute rule. Then after that is completed each mem-

ber of the subcommittee can take all the time he needs to interrogate the witness dealing with that subject matter. Is that agreeable with the committee?

Mr. GALIFIANAKIS. What will be the general subject?

Mr. PASSMAN. The Ryukyu Islands. The Commissioner wears two caps, representing our military and economic aid for Okinawa. He will testify before this committee for the economic aid request.

Mr. GALIFIANAKIS. We associate ourselves with the thanks that you have so eloquently put to the witness. We newer members want to be identified with those expressions of gratitude.

Mr. PASSMAN. That concludes our hearings on MAP and the committee will adjourn.

WEDNESDAY, MARCH 31, 1971.

INTER-AMERICAN DEVELOPMENT BANK

WITNESSES

JOHN R. PETTY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, TREASURY DEPARTMENT
HENRY J. COSTANZO, U.S. EXECUTIVE DIRECTOR, INTER-AMERICAN DEVELOPMENT BANK
REUBEN STERNFELD, ALTERNATE U.S. EXECUTIVE DIRECTOR, INTER-AMERICAN DEVELOPMENT BANK
RALPH HIRSCHTRITT, INSPECTOR GENERAL FOR INTERNATIONAL FINANCE, TREASURY DEPARTMENT
E. JAY FINKEL, PROGRAM OFFICER, OFFICE OF ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, TREASURY DEPARTMENT
MICHAEL BRADFIELD, ASSISTANT GENERAL COUNSEL TREASURY DEPARTMENT
NORMAN E. SIMS, Jr., ACTING DIRECTOR, OFFICE OF BUDGET AND FINANCE, TREASURY DEPARTMENT
EDWARD R. KASTORF, SENIOR BUDGET ANALYST, OFFICE OF BUDGET AND FINANCE, TREASURY DEPARTMENT

International Financial Institutions
Program and Financing
(in thousands of dollars)

Identification code	1971 actual	1971 estimate	1971 estimate
	Presently available	Revised Estimate	Proposed Supplemental
Program by activities:			
1. Investment in International Development Association	160,000	160,000	---
2. Investment in Inter-American Development Bank	---	150,000	150,000
3. Investment in Asian Development Bank	20,000	20,000	---
4. Investment in International Bank for Reconstruction and Development	---	24,610	24,610
10 Total program costs funded-Obligations (object class 33.0)	180,000	354,610	174,610
Financing:			
Unobligated balance available, start of year:			
21.40 appropriation	-1,077,640	1,077,640	---
21.47 authority to spend public debt debt receipts	-5,715,000	-5,715,000	---
Unobligated balance available, end of year:			
24.40 appropriation	1,123,520	1,681,770	558,250
24.47 authority to spend public debt receipts	5,715,000	5,715,000	---
40 Budget authority (appropriation)	685,880	1,418,740	732,860
Relation of obligations to outlays:			
71 Obligations incurred, net	640,000	814,610	174,610
72 Obligated balance, start of year	1,425,454	1,425,454	---
74 Obligated balance, end of year	-1,841,562	-1,991,562	-150,000
90 Outlays	223,892	248,502	24,610

Mr. PASSMAN. The committee will come to order.

Today we will consider the supplemental budget request for the Inter-American Development Bank for fiscal year 1971, and the regular request for fiscal year 1972.

We have with us the Honorable John R. Petty, Assistant Secretary for International Affairs, Treasury Department; and Mr. Henry Costanzo, U.S. Executive Director to the Bank with supporting witnesses. Since this is Mr. Costanzo's first appearance before the committee, we will insert in the record at this point his biographic outline.

(The biography follows:)

HENRY J. COSTANZO, EXECUTIVE DIRECTOR OF THE INTER-AMERICAN DEVELOPMENT BANK

Mr. Costanzo is formerly a Mission Director of the Agency for International Development. He received his A.B. from St. Mary's University in 1946 and his M.A. from Columbia University in 1949.

From 1949 until 1952 he served as an economist with the Economic Cooperation Administration in Italy, and from 1952 to 1953 as the Assistant U.S. Treasury Representative in Rome.

Mr. Costanzo became the U.S. Treasury representative at Seoul, Korea, in 1954 and held that position until 1955 when he became a financial adviser and Chief of Program Planning for the International Cooperation Administration. From 1957 until 1961 he served as an adviser to the International Monetary Fund. Mr. Costanzo then became an economist in the Office of the Assistant Secretary of the Treasury for International Affairs. In 1962 he was made the Director of the Office of Latin America at the Treasury Department, a position he held until he joined AID in 1967. Mr. Costanzo has held his present position as U.S. Executive Director of the IDB since 1969.

Mr. Costanzo is married to the former Maxine Kruse and they have two daughters.

Mr. PASSMAN. I might state for the record that under the new rules we are using, each member will consume 5 minutes, which includes questions and answers. We never want to cut a witness off; but after each member has consumed 5 minutes in questions and answers, then we start back and each member then will consume all the time that he needs to examine the witnesses. So if you will give very brief answers, you do so with the understanding that we will go around the table another time.

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

GENERAL STATEMENT

Mr. PETTY. Yes, sir.

Mr. Chairman and members of the subcommittee, it is my pleasure to appear before you in support of the President's request for fiscal year 1971 and fiscal year 1972 appropriations for U.S. subscriptions and contributions to the Inter-American Development Bank. These requests are made pursuant to Public Law 91–599, dated December 31, 1970, which authorized (a) U.S. subscription to $150 million of the Bank's paid-in ordinary capital, payable in three equal annual installments in fiscal year 1971, fiscal year 1972, and fiscal year 1973; (b) U.S. subscription to $674 million of callable ordinary capital, to be appropriated in two equal installments of $337 million in fiscal year 1971 and fiscal year 1973; and (c) a fiscal year 1971 U.S. contribution of $100 million to the Bank's Fund for Special Operations.

The table below outlines the requests being made today within the above authorization:

	Dollars in millions
Ordinary capital (paid in)	100.00
Ordinary capital (callable)	336.76
Fund for Special Operations	100.00
Total	536.76

The fiscal year breakdown of the total amount requested is:

	Fiscal year 1971	Fiscal year 1972 (in millions)	Total request
Paid-in:			
Ordinary capital	$50.00	$50.00	$100.00
Fund for special operations	100.00	(1)	100.00
Callable: Ordinary capital	336.76		336.76
Total	486.76	50.00	536.76

[1] Authorization legislation pending.

No budgetary outlays are foreseen under these requests during fiscal year 1971. Budgetary outlays during fiscal year 1972 are not expected to exceed $50 million. All paid-in amounts would take the form of letters of credits; the callable capital amount represents a contingent liability, on which no future cash payment is foreseen.

(Ordinary capital is the "window" of the Bank which lends funds for development on conventional terms. The Fund for Special Operations is the Bank's "window" which extends loans on terms that are not as hard, in order to take into account special circumstances of the borrower.)

The resources authorized for IDB in Public Law 91–599 represent the U.S. share of a multilateral replenishment of the Bank's capital to which all other members are also contributing. This replenishment was agreed by the Bank's Board of Governors in April 1970, and is the basis for legislative actions already completed in the majority of the Bank's member countries. In brief, the replenishment contemplated the following:

An increase of $2 billion in authorized ordinary capital, bringing total authorized capital to $5,150 million. Of the $2 billion increase:

$400 million is of paid-in capital, bringing total authorized paid-in capital to $875 million, and

$1,600 million is of callable capital, bringing total authorized callable capital to $4,275 million.

An increase of $1,500 million in contributions to the Fund for Special Operations, bringing total contributions to $3,828 million.

Should the replenishment agreement be fully implemented, subscriptions to ordinary capital would be $4,702 million, the balance of $448 million of authorized capital remaining intentionally unsubscribed. The division between the United States and the Latin American members would be as follows:

[Dollars in millions]

	Paid-in	Callable	Total	Percentage share
United States	$300	$1,698	$1,997	42
Other members	475	2,230	2,705	58
Total	775	3,927	4,702	100

Of the Fund for Special Operations, the division between the United States and the Latin American members would be as follows (these figures include $900 million of U.S. contribution for which authorization is pending before Congress) :

	Amount (millions)	Cumulative percentage share	Percentage share of proposed replenishment
United States	$2,800	73	67
Other members	1,028	27	33
Total	3,828	100	100

The replenishment agreed by the Governors last year was designed to support a growth of approximately 50 percent in the Bank's lending activity—in both ordinary capital and the Fund for Special Operations—over the next 3–5 years, from roughly $600 million per year to about $900 million per year. The funds now being requested of the Congress are essential if this agreed growth target is to be realized. Projected loan operations by the Bank during calendar 1971 will exhaust presently available lendable resources, both with respect to the ordinary capital and the Fund for Special Operations. Thus, without new resources the Bank would enter calendar 1972 facing the necessity of drastic cutbacks in new loan authorizations.

BACKGROUND

The Bank was established in 1959 and began operations in the following year. Its membership of 23 countries is currently limited to members of the Organization of American States; Cuba has never joined and is not now eligible for membership. To fulfill its purpose, the IDB uses its own subscribed and contributed resources and promotes the investment of Latin American private and public capital. In addition, its serves as an administrator of development funds provided by nonmember governments and it finances technical assistance for development planning and projects. Its lending operations in Latin America are almost comparable in amount to those of the World Bank, and thus represent a major proportion of external finance for the region. The Bank's loans have a substantial leverage effect as well—roughly $2 of local and other resources are put up for every $1 supplied by the Bank. The Bank has just installed as its new President Dr. Antonio Ortiz Mena, the distinguished former Secretary of the Treasury of Mexico and an internationally recognized financial statesman.

FINANCIAL STRUCTURE AND LOAN OPERATIONS

The Bank conducts its activities through two "windows"—ordinary capital (OC) and the Fund for Special Operations (FSO). The resources of each are administered and accounted for separately.

ORDINARY CAPITAL

The initial source of funds for ordinary capital operations was the paid-in portion of subscriptions. These amounted to $388.5 million

(excluding funds currently being requested), of which $268 million were U.S. dollars and the remainder Latin American national currencies. The U.S. share of paid-in capital was $150 million and the Latin American members subscribed to $238.5 million.

The portion of the ordinary capital not paid-in is callable, that is, it may be called for payment in the unlikely event the Bank is unable to meet its obligations. It may not be called to obtain normal loan resources, but rather serves as a guarantee fund against which the Bank may borrow in financial markets. After successive increases, subscribed callable capital now totals $2.37 billion, of which the United States has provided $1,023 million and the Latin Americans have provided $1,351 million.

It is on borrowings against callable capital that primary reliance has been placed for loanable ordinary capital funds. The Bank's funded debt, representing resources obtained on the world's capital markets is equal to 62 percent of ordinary capital loans made.

From 1962 until the end of 1970, public issues and direct borrowings totaling $861.9 mililon have been placed in the United States, Italy, West Germany, the United Kingdom, Japan, Switzerland, the Netherlands, Belgium, Austria and other countries. In addition, $77.6 million is outstanding in the form of short term bonds placed with central banks, mainly in Latin America. A net total of $915.1 million of borrowings was outstanding as of December 31, 1970. About 47 percent of the Bank's issues have been sold outside the United States.

As of December 31, 1970, ordinary lending operations had resulted in 205 loans for $1,486.0 million. The basic interest rate for ordinary capital dollar loans is currently 8 percent; maturities on 1970 loans averaged about 18–20 years. Ordinary capital loans are repayable in the currencies that are lent.

The voting strength of a member country in the Bank on any subject is determined by its subscription to the ordinary capital. The United States has about 42 percent of the total voting power. Normal operating decisions on ordinary capital matters are taken on the basis of a simple majority.

FUND FOR SPECIAL OPERATIONS

At the time of the Bank's establishment, the FSO was created as a separate fund to make loans on concessional terms to members whose income levels, balance of payments or external debt burdens made it difficult for them to meet their development needs through conventional borrowing. It is the purpose of the FSO, furthermore, to assist in financing projects which are of basic developmental importance but from which the economic benefits can be realized only over the long term. The original scope of this fund was expanded in 1965 to include the social development projects previously financed by the Social Progress Trust Fund, and further lending from the later fund was terminated.

Contributions by member countries to the Fund for Special Operations total $2,328.0 mililon as of December 31, 1970. Of this sum, the United States has contributed $1,800 million, or 77 percent, and the Latin American members have contributed $528 million, principally

in their own currencies (which, like Latin American subscriptions in their own currencies to ordinary capital, are actively used in the Bank's lending operations).

The ratio of the U.S. contributions to Latin American contributions to the Fund for Special Operations has been steadily declining. Under the proposed structure of the pending replenishment, U.S. contributions are in a ratio of 2 to 1 to the contributions of the Latin American members. This in contrast to the 3-to-1 ratio which prevailed in the replenishment agreed in 1967, and the 5 to 1 ratio which prevailed in the replenishment agreed in 1964. As a result, upon completion of the contemplated replenishment contributions, the cumulative U.S. share of the Fund for Special Operations will decline to 73 percent.

The approval of any matters involving the Fund for Special Operations requires a two-thirds majority vote. Thus with U.S. voting strength of roughly 42 percent, U.S. agreement is necessary on all matters affecting this aspect of Bank operations.

The resources of the FSO are being used to provide financial assistance for high priority development projects in such basic fields as power, transportation and agriculture, and for essential social projects including the expansion and improvement of technical, vocational and scientific education in Latin America. As of December 31, 1970, the Bank has committed $2,021.6 million in 279 loan operations. Interest rates on FSO loans are 3 percent and 4 percent depending on the nature of the project; maturities on 1970 loans averaged 22–25 years, with some as long as 30 years. Loans out of current resources have with few exceptions been repayable in the currency of the borrower, but loans to be made out of the resources of this replenishment are to be repaid in the currencies lent.

IDB RESPONSIVENESS TO U.S. POLICY INITIATIVES

The United States does not and should not seek to dominate policy making in a multilateral institution in which it is only one of many members and to which it provides only a portion of the capital. It is legitimate, nevertheless, for the United States to be concerned that its important policy interests and policy initiatives be reasonable taken into account in the institution's policy formulation. I think the Inter-American Development Bank deserves high marks in this regard, both in relation to matters raised with the Bank by the Executive Branch and to specific interests arising in the course of congressional review and approval of U.S. funding for the Bank. The following items will illustrate this point:

> During the negotiations for the present replenishment U.S. representatives urged that the Latin Americans increase the proportion of the contributions to the Fund for Special Operations, shift repayment terms on FSO loans from a soft currency to a hard currency basis and broaden the useability of Latin American countries contributed to the FSO. These actions were accepted by the Latin Americans within the framework of a multilaterally negotiated agreement, thus meeting our objectives satisfactorily.
>
> In previous hearings before this subcommittee on the Asian Bank capital subscription concern was expressed regarding the

inclusion of an outright cash component in the paid-in portion of that subscription. Although the circumstances are different as between the two banks, you will notice that in the present replenishment the entire amount of the paid-in portion of IDB subscriptions is in the form of a letter of credit, which will be drawn down later as required to maintain the Bank's financial position. This specific congressional interest, responsive to this subcommittee's point of view, was one of our negotiating objectives in the replenishment discussions, and the Latin American members of the Bank were prepared to accept it.

Another specific matter affecting the Bank raised by this subcommittee is the question of the so-called staff loan program. In the case of the IDB, the U.S. executive director has responded to committee concerns by requesting during the past year a full review of this program, as a result of which some changes and limitations have already been adopted and further changes are under consideration.

One of the outstanding examples of responsiveness to the need by major contributors for adequate information and for mechanisms to assure that the multilateral institutions are operating effectively can be found in the establishment of an independent program audit mechanism on a multilateral basis within the IDB, pursuant to the so-called Selden Amendment of 1967. Although the process of activation of this mechanism has been lengthy, the mechanism is now functioning. In this connection, I might also mention to the committee, that a GAO team has commenced a review in the Treasury of U.S. participation in multilateral institutions, including the Inter-American Development Bank. I believe this review will be a useful experience from the standpoint of both sides and I expect that it will develop all the information necessary while respecting the international nature of the multilateral institutions.

Another area of congressional concern is with the ability of the United States to obtain full information to guide its decisionmaking with respect to multilateral development lending institutions. I can assure this committee that the United States obtains the full information that it needs and that the Treasury Department is fully prepared to provide the Congress with information that it needs for its consideration. Legislative oversight hearings took place before two other committees of the Congress last year, and several aspects of IDB administration were reviewed. The administration welcomes the opportunity for these reviews of our participation in the IDB. Through them, our awareness of congressional interests and concerns is improved, along with our ability to reflect such concerns in our contacts with the Bank. And, importantly, they are a means of insuring adequate disclosure to the Congress and to taxpayers in general of how public funds are being used effectively to further Latin American development.

In addition, in the legislation which enacted the authorizations of appropriations, which you are now considering, the Congress established requirements for expanded reporting with respect to the multilateral development lending institutions to be included in the annual National Advisory Council report to Congress. I think you will find

the next report of the Council to be a valuable statement of the activities of these institutions.

In short, Mr. Chairman, I think there is ample evidence that in our operations with and through the multilateral institutions, as exemplified by the IDB, the U.S. voice is being effectively heard—not as a sole controlling voice, but as a voice for constructive change. I can say for the Treasury that we intend to continue to be alert and responsive to congressional concerns regarding the multilateral institutions, and I see no reason to expect other than a continued and improved responsiveness to U.S. concern on the part of the Inter-American Bank, consistent with its multinational composition.

Mr. Chairman, our IDB Executive Director, Mr. Costanzo, and I will be happy to discuss the figures underlying our specific requests as well as broader aspects of the Bank's operations. I sincerely believe that our funding requests are important to achieve development policy goals of the United States articulated by the President, that the IDB is using our funds well and will continue to do so, and that the interests of the United States are protected as well as forwarded in our support of the Inter-American Development Bank.

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

JUSTIFICATION MATERIAL

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

(The justification material follows:)

INTERNATIONAL FINANCIAL INSTITUTIONS

INVESTMENT IN INTER-AMERICAN DEVELOPMENT BANK

For payment by the Secretary of the Treasury of (1) the first of three annual installments for the United States subscription to the paid-in capital stock of the Bank; (2) the first of two installments for the United States subscription to the callable capital stock of the Bank; and (3) the installment for the U.S. share of the increase in the resources of the fund for special operations of the Bank, as authorized by the act of December 30, 1970 (Public Law 91-599), $486,760,000, to remain available until expended.

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FUNDS APPROPRIATED TO THE PRESIDENT
INTER-AMERICAN DEVELOPMENT BANK
(DOLLARS IN THOUSANDS)

Authorizations	Total, U.S. Participation Authorized
Public Law 86-147:	
Initial Contributions:	
Paid-in Capital Stock	150,000
Callable Capital Stock	200,000
Fund for Special Operations	100,000
	450,000
Public Law 88-259:	
Fund for Special Operation	50,000
Callable Capital Stock	411,760
Public Law 89-6:	
Increase in quota for Fund for Special Operations..	750,000
	1,211,760
Public Law 90-88:	
Increases in resources Fund for Special Operations	900,000
Public Law 90-325:	
Increase in Callable Capital	411,760
	1,311,760
Public Law 91-599:	
Increase in Paid-in Capital Stock	150,000
Increase in Callable Capital Stock	673,520
Increase in Fund for Special Operations	100,000
	923,520
	3,897,040

Appropriations	Amount
First Supplemental Appro. Act, 1960	
Paid-in Capital	30,000
Callable Capital	200,000
Fund for Special Operations	50,000
Foreign Assistance and Related Agencies Appro. Act, 1962: Paid-in Capital	60,000
Fund for Special Operations	50,000
Foreign Aid and Related Agencies Appro. Act, 1963: Paid-in Capital	60,000
	450,000
Foreign Aid and Related Agencies Appro. Act, 1964: Fund for Special Operations	50,000
Foreign Aid and Related Agencies Appro. Act, 1965: Callable Capital	205,880
Second Supplemental Appro. Act, 1965: Fund for Special Operations	250,000
Foreign Assistance and Related Agencies Appro. Act, 1966: Callable Capital	205,880
Fund for Special Operations	250,000
Foreign Assistance and Related Agencies Appro. Act, 1967: Fund for Special Operations	250,000
	1,211,760
Foreign Assistance and Related Agencies Appro. Act, 1968: Fund for Special Operations	300,000
Foreign Assistance and Related Agencies Appro. Act, 1969: Callable Capital	205,880
Fund for Special Operations	300,000
1970: Callable Capital	205,880
Fund for Special Operations	300,000
	1,311,760
Requested under International Financial Institution Appropriation Act, 1971:	
Proposed supplemental - paid-in capital	50,000
Proposed supplemental - callable capital	336,760
Proposed supplemental - Special Operations	100,000
1972:	
Estimate - paid-in capital	50,000
1973:	
Estimate - paid-in capital	50,000
callable capital	336,760
	923,520
	3,897,040

INVESTMENT IN INTER-AMERICAN DEVELOPMENT BANK

JUSTIFICATION

An increase in the resources of the IDB at this time is necessary in order to implement the decision of the Bank's Governors last year at Punta del Este that the lending level of the Bank should rise by roughly 50 percent, from a recent level of approximately $600 million per year to $900 million per year or more by 1973. Such an increase, moreover, would be in line with our own emphasis on the greater use of multilateral channels of aid.

The appropriations sought at this time are required in order to meet commitments the United States is undertaking in connection with the current replenishment of IDB resources. The requested amounts were authorized by the Congress in Public Law 91-599, approved December 30, 1970. The United States Governor of the IDB has voted favorably on the resolutions governing the replenishment, pursuant to Congressional authorization. These resolutions call for payment of the requested amounts by June 30, 1971.

Without an input of new resources, including the U. S. resources requested herein, the Ordinary Capital lending activities of the Bank would have to be sharply curtailed early in 1972; similarly the extension of "soft loans" from the Fund for Special Operations would also have to be reduced in 1972 below present levels unless new funds are provided.

Consequently, it is important that the $50 million of paid-in capital and the $336.8 million of callable capital for fiscal year 1971 be made available through a supplemental appropriation. Similarly, the $100 million for the FSO will be essential to maintain operations. It is not in our interest to allow the pace of Latin American development to be slowed through failure to meet the financial needs of the Bank.

Investment in Inter-American Development Bank

SUMMARY JUSTIFICATION OF FY 1972 BUDGET ESTIMATES

The Inter-American Development Bank (IDB) is an intergovernmental institution, corporate in form, whose capital stock is owned by its member governments. The Bank promotes economic development in member countries through loans, technical assistance, and guarantees of private investment in development projects. Twenty-three Western Hemisphere republics, including the United States, are members of the Bank. Cuba is not a member of the Bank.

Ordinary Capital. The Ordinary Capital provides development funds on conventional terms. It commenced operations with governmental subscriptions, but now obtains most of its funds from private financial markets through the sale of bonds. The Bank's authorized Ordinary Capital is now the equivalent of $3,150 million of which $2,763 million had been subscribed as of December 31, 1970. Of the total subscribed, the equivalent of $388,480,000 is paid-in capital and the remaining $2,374,540,000 is subject to call if required to meet obligations arising out of borrowings of guarantees. The Bank's original authorized capital of $850 million was enlarged to $2,150 million in 1964 through an increase of $1 billion in callable capital, and of $300 million in both paid-in and callable capital for subscription by possible new members. A further increase of $1 billion in callable capital was authorized in 1967.

Public Law 86-147, approved August 7, 1959, authorized U. S. membership in the Bank, and authorized appropriation of $350 million to cover the U. S. subscription to ordinary capital, of which $150 million was paid-in and $200 million was callable. Public Law 88-259, approved January 22, 1964, authorized appropriation of an additional $411,760,000 to cover an increase in the U. S. callable subscription. The U. S. subscription, as of December 31, 1970, totaled $1,173,520,000. On December 30, 1970, the Congress further authorized in Public Law 91-599 an additional increase of $823,520,000. Of this $150 million is to be paid-in -- $50 million to be appropriated in each of the three fiscal years 1971-73 -- and $673,520,000 is to be callable -- half of which is to be appropriated in FY 1971 and the remaining half in FY 1973.

By December 31, 1970, Bank commitments from Ordinary Capital had reached $1,486 million equivalent on 205 loans.

The present request for $50 million is based on an expansion of IDB's lending program. With these resources, together with those proposed to be provided under a FY 1971 supplemental appropriation ($50 million in the form of paid-in capital and $336,760,000 callable), the Bank intends to increase its lending from Ordinary Capital by more than one third. On December 31, 1970, available resources totaled about $67.5 million and, in addition, the Bank had remaining borrowing capacity against the already subscribed U. S. callable capital of approximately $98.2 million. With the proposed FY 1971 supplemental appropriation of $50 million paid-in, repayments to be received during 1971 and the additional resources provided in 1971 by the other members, the lending program for 1971 is achievable. But the lending level for 1972 will be difficult to achieve unless additional funds are available, even taking into account amounts to be borrowed against the first tranche ($336,760,000) of the amount authorized for callable capital under Public Law 91-599. Consequently, the additional $50 million for FY 1972 is essential if the loan program is to be implemented.

The form and timing of this replenishment and the use of the contribution will ensure that the budgetary consequences, in expenditure terms, will be deferred and, for a large portion -- the callable -- no direct expenditures are likely to be required.

Investment in Inter-American Development Bank

Fund for Special Operations. In addition to its Ordinary Capital operations, the Bank lends from FSO in circumstances where Ordinary Capital financing is not appropriate. The loans are made on easy repayment terms and are extended entirely from resources provided by the United States and Latin America members of the Bank. The initial resources totaled $146.3 million, one-half payable in dollars and one-half in member currencies. The resources were increased to $219.5 million in 1964 and again to $1,119.5 million in 1965. With the admission of Trinidad and Tobago to Bank membership in 1967, total resources of the FSO increased to $1,121.4 million.

Public Law 86-147, approved August 7, 1959, authorized payment of the initial U. S. quota of $100 million; Public Law 88-259, approved January 22, 1964, authorized payment of $50 million for the first increase in U. S. quota. U. S. payments totaling $750 million for the second increase in the U. S. quota were made in three successive $250 million installments pursuant to authority contained in Public Law 89-6 of March 24, 1965.

In April 1967, the Board of Governors of the Bank recommended an increase in Fund resources of $400 million per year during the three year period from approximately early 1968 through early 1971. This increase became effective on December 29, 1967. The U. S. share of this increase was $300 million per year or a total of $900 million. Authorizing legislation for the latter amount was passed by the Congress (Public Law 90-88 of September 22, 1967). Appropriations for the three $300 million installments of the U. S. contribution were obtained in 1968, 1969 and 1970. It is expected that a proposed FY 1971 supplemental appropriation will provide the $100 million authorized by Public Law 91-599 as part of the $1 billion replenishment agreed by the Bank's Governors in 1970.

As of December 31, 1970, commitments from the Fund for Special Operations amounted to $2,021.6 million equivalent on 279 loans.

POSSIBLE BUDGET DEFICIT

Mr. PASSMAN. It always affords me a great deal of personal satisfaction, in fact it is enjoyable when we have economists such as yourself before this committee. I think we all have a common interest that we all love America and we are doing the very best that we can to keep our country great, free, strong, wealthy, and respected. I want to see if I have been taught correctly or should I say trained correctly in the use of statistics.

If a government spends $230 billion and they only collect revenue of $210 billion, we will be operating with a deficit on borrowed money of $20 billion, and in the main that $20 billion takes on value only by diluting all the other earnings. Does it have any other way of taking on value?

Mr. PETTY. If it satisfies productive needs, I think it does, Mr. Chairman.

Mr. PASSMAN. You think. Let's not talk about "think." The government takes in $210 billion and spends $230 billion, this money must be borrowed. I believe all your economists say that that is how we get inflation, by spending in excess of our intake.

I believe the present administration has put in the deep freeze hundreds of millions of dollars for that same reason, have they not?

Mr. PETTY. Yes.

Mr. PASSMAN. So in effect would you accept this as being factual—and I guess that is why the President put these funds in the deep freeze to cool off the economy and hold down inflation—that in the main it simply means that spending borrowed money to a very large extent creates inflation?

Mr. PETTY. It was certainly an anti-inflationary device. One of the programs that was employed was to delay expenditures of appropriated resources, yes, sir.

Mr. PASSMAN. I am very grateful for that very factual statement because that is the way I was taught. Anything you spend in excess of your intake takes on value only by diluting the other part of it.

I believe under the present plans, that is under the present estimates, we are going to in all probability close this fiscal year on June 30, with about a $20 billion deficit, are we not?

Mr. PETTY. In that order of magnitude, I believe so, yes, sir.

Mr. PASSMAN. This is not a partisan committee. We have a Democratic-controlled House and Senate, but in the executive branch, we have a Republican. So I think we should have it understood this is not a partisan committee. I do not think the President could spend any money we did not appropriate, could he?

Mr. PETTY. No, sir.

Mr. PASSMAN. Now we shall proceed according to the rules of the committee. I shall delay any examination until such time as each member has had an opportunity to consume 5 minutes in questions and answers. Then we shall return to the system we have used in the past; that is, each member may consume all the time necessary to make the type of record he feels should be made so that we can intelligently mark up the bill.

So at this time I yield 5 minutes to the distinguished gentleman from Kansas, Mr. Shriver.

NEED FOR THE SUPPLEMENT APPROPRIATION

Mr. SHRIVER. Thank you, Mr. Chairman.

Mr. Petty, as I understand it, all but $50 million of the $537 million you are requesting is in the form of a supplemental appropriation for fiscal 1971; is that correct?

Mr. PETTY. Yes, sir.

Mr. SHRIVER. As a general rule, in this subcommittee a supplemental is only necessary to meet shortfalls in mandatory programs and other emergencies. And at a time when certain areas of our country, including my own congressional district, are in great need of economic development and transition assistance, what is the emergency in Latin America that outweighs our domestic needs?

Mr. PETTY. I think the United States, Mr. Shriver, has many priorities, many objectives, many interests. Each issue, looked upon individually, has its own great importance. Fortunately, we are able to pursue many national priorities at the same time. Within the area of our international responsibilities, the role we see, we believe that we can pursue our international obligations on this modest scale and continue to meet our own national objectives.

Mr. SHRIVER. On page 2 of your statement it says no budgetary outlays are foreseen under these requests during fiscal year 1971. Why, then, is it needed as a supplemental in fiscal year 1971?

Mr. PETTY. Well, there are two things, sir. First, we are involved in increasing the resources of a development bank. Second, the Bank is prudently managed—it must have resources committed before it agrees to make loans.

Mr. SHRIVER. Is what?

Mr. PETTY. Is prudently managed. It makes commitments against contributions and other resources. We would not permit the Bank to make commitments for which the resources have not been fully provided. Here we have the problem of the lag between providing the resources and the commitment and disbursal period that the Bank must go through to examine its loans and build its projects.

Mr. SHRIVER. But you say you are not going to use them in 1971, and you are asking for a supplemental.

Mr. PETTY. What we are doing here, sir, to solve this problem is to request congressional appropriation for the resources to meet the cash flow needs which the chairman mentioned earlier and your question points to. The contributions are made in the form of a letter of credit, but the cash itself is actually to be disbursed only when the Bank itself has been called upon to disburse funds.

Mr. SHRIVER. So during 1971 it is just a matter of bookkeeping?

Mr. PETTY. Well, it is an assurance, sir, a commitment from Congress, an authorization of the executive branch that the resources will be paid when the Bank makes its disbursement. Lacking that assurance, we would not want the Bank to go ahead and make new obligations.

IDB IRRIGATION LOANS IN MEXICO

Mr. SHRIVER. I have in my hand an article which appeared in the Washington Post on January 11, 1971. The article describes the IDB

loans for 23 projects in Mexico, totaling $273.3 million, for the purpose of irrigation.

The problem arose when it was belatedly discovered no crops can grow on the land in question, water or no water, because of gale force winds.

Some of the land was also too hilly for the type of irrigation used.

Now, do you know about this project?

Mr. PETTY. Yes, sir. I would be happy to have myself and our executive director, Mr. Costanzo, add to the information that Washington Post article has because it is very limited information.

First, we had looked at this situation closely and had followed it in advance of that story. There is no question of the Bank not fulfilling the obligations that it undertook; there is no question of improper evaluation of the projects. The question concerns more the actual working of the project and the performance by the host country in some details of the loan itself.

Maybe Mr. Costanzo might elaborate.

Mr. COSTANZO. Yes, I could elaborate briefly now, Mr. Chairman, and, if you wish, put additional details into the record.

It is not true that these irrigation projects were carried out in areas where nothing would grow.

As a matter of fact, production in all of these particular projects increased substantially, in some cases by two or three times and by as much as fivefold in one of these projects. Even in the case of a project where it is noted that there are gale force winds during part of the year—which was something that was known before the project was initiated, there has been an increase in the value of production in this project by two times, in 1968–69, over the value of what was produced there before this project was undertaken.

This appraisal was an effort on the part of the Bank, as a part of its continuing program of evaluating the results of projects—most of these were undertaken 9, 10 years ago—to see what actually happened after the project was constructed, after the water was there, the land cleared and two or three agricultural cycles—what actually happened compared with what was forecast to happen in terms of the benefits to Mexico.

Mr. SHRIVER. What is the status of these loans now?

Mr. COSTANZO. These loans are all in good order.

Substantial amounts have already been repaid by Mexico. There are no problems with respect to servicing the loans. There were some shortfalls in meeting the originally forecast cost-benefit ratios.

Mr. SHRIVER. Then you would say that this article is erroneous and filled with information that is not really fact?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. Mr. Roybal?

CHANGES IN IDB MANAGEMENT

Mr. ROYBAL. Thank you, Mr. Chairman.

While a member of the Committee on Foreign Affairs, and upon looking into the management of the Inter-American Development

Bank, I became very disappointed with what I felt were the facts regarding the management at that particular time.

Can you tell us now whether there has been any change in the hierarchy of the Bank in the last year, say?

Mr. PETTY. Yes, Congressman Roybal, I can.

The most notable change is the election of the new president, Mr. Ortiz-Mena, a former Secretary of the Treasury of Mexico, and the retirement of Dr. Felipe Herrera, the man who for the first 10 years led the institution.

Mr. Ortiz-Mena has been on the job just a month and any subsequent management operational decisions he has to make are only being formulated by him at this time. So I can only give you a preliminary point as to that major change.

Mr. ROYBAL. Do you know whether or not he has any intention of upgrading the staff, particularly in the economic division and what his intentions are with regard to the evaluation of loans that are made?

Mr. PETTY. This whole issue of managing the institution and how to improve its efficiency is very much on his mind. We have talked about it at length on different occasions before he came and after he has taken charge.

The question of improving the internal controls, procedures, is a particular case in point. There is an outside management study going on of the institution right now, the report of which is due in about a month, which would provide additional insight to the new president.

We have an institution that 10 years ago was really only a promise and a piece of paper. It is now a really well-established development institution, building up a strong staff and now a firm hand which is going to provide additional guidance and changes.

There will be changes, I am sure, inevitably in the operational staff, in the management people, as there are in a reorganizational change of this size in any bank.

Mr. ROYBAL. Since there are going to be some changes made in the management of the bank, I assume then that the vice president of the bank, who is an American, will place a more prominent role in the management of the institution?

Mr. PETTY. Well, certainly the number two slot in the bank is a very key one. It is a role that has been occupied by an American. We envision that job to continue to be of increasing importance.

Mr. ROYBAL. It is my opinion that it has not been as important as it should have been, that the American representative has played a secondary role and has not really been instrumental in participating in the decisionmaking process that particularly with regard to loans and other important decisions made by the bank, with the result that he might just as well have stayed home for all the good that he did with regard to decisions that were made in the bank.

Now, I would like to see the American counterpart of Mr. Mena, at least have some role in determining whether or not a particular loan is justified.

I make this statement not only because of rumor, but because of the discrepancies some of the loans that I have had the opportunity

of looking into. There have been loans that have been made simply because someone happened to know someone and not because the loans were really justified.

Something has to be done within the bank system to see to it that loans are made on a more equitable basis, based on need and not on friendship that has existed in the past.

What I am saying is that this Bank should be run on a business-like basis at all times. That would include those loans that are made not only to Latin American countries, but loans that are made to the staff, for I do not think that this Bank has any business making any loans to any member of the staff.

STAFF LOAN PROGRAM

I do not think it is good business for a bank to do that. I do not know of any bank, at least savings and loans that I know of, that would make such a loan to a member of its board, any place in the United States.

Now, why should it be done then in the Inter-American Development Bank where we appropriate about a half billion dollars per year?

Mr. PETTY. Congressman, this committee has raised in the past the issue of staff loans. The House Foreign Affairs Subcommittee on Latin American Affairs has raised other issues with respect to the policy of the Bank.

We have listened and reacted to this and conveyed these views to the members of the Executive Board, to the governors, and to the Bank. Some changes have been made.

If I may, I would like to point out a response or two.

I think our Executive Director, Mr. Costanzo, could talk specifically on the staff loan program and the progress we made on it, prompted by this committee's inquiries last year.

Mr. PASSMAN. Please give brief answers because we are going to go back around and let each member consume all the time he wants to. If the member asks a 30-second question and gets a 7-minute answer, it deprives other members of asking questions.

Mr. ROYBAL. I think my time is up.

Mr. PASSMAN. Mrs. Reid?

ACCOUNTABILITY REPORT

Mrs. REID. Thank you, Mr. Chairman.

In the administration of its resources, does the bank require frequent accountability reports?

Mr. PETTY. It does indeed. There is a series of different types of audits, both in terms of the loans that are underway and being disbursed and the subsequent evaluations.

Perhaps Mr. Costanzo may want to answer that or we can reserve that perhaps for a later moment.

Mrs. REID. Fine. If we do not have an opportunity for that, will you elaborate on it for the record then?

Mr. PETTY. Yes.

Mr. COSTANZO. We would be very happy to.

(The information follows:)

BASIC PHILOSOPHY OF THE BANK'S LOAN CONTROL

The Bank realized that in making a development loan it could not substitute its management or its technical capabilities for those of a borrower, nor would it want to. Instead, it designed a system and has continued to improve it, to enable it to have the same assurances regarding each project as if the Bank were managing it or carrying out the technical work itself.

To do this, it has developed during its first 10 years an integrated loan control program consisting of three separate phases: (1) Preventive and prelending controls; (2) surveillance and administration controls; and (3) financial, audit, and evaluation controls. In each phase auditing is performed, although in each case it is for a different purpose.

PREVENTIVE AND PRELENDING CONTROLS

Under the coordination of a loan officer, teams of professionals study all aspects of a borrower, its operations and its proposed project prior to approval of any loan. The Bank objective is to satisfy itself that the loan, borrower, and project meet all the standards for being proper and probably successful. Each team consists of a financial analyst, an engineer(s) or specialist(s) in the type of project under study, an economist, an attorney, a Loan Administration officer and a loan officer.

As is necessary for a prudent lender, the Bank requires its borrowrs to have annual examinations made by independent accountants who are acceptable to, and approved by, the Bank. In those cases when the borrower is a governmental unit, the Bank will allow an equivalently satisfactory annual examination to be made by an auditing agency of the member government. In addition to requiring the normal auditor's opinion on the financial condition and operations of the borrower, the Bank requests much more of the auditors. Details as to compliance with contract conditions, disclosure of weaknesses in internal control and operating procedures, aging of borrowers receivables and compliance with segregation of loan proceeds are only a few of the items of additional information the Bank requests. The Bank also reserves the right to make direct inquiries of the independent auditor. It normally asks also that such an examination be made prior to the approval of the loan.

In addition to these preventive controls, the Bank also establishes prelending controls such as contractual conditions which must be fulfilled prior to disbursement, and others which must be complied with throughout the life of the loan. Many of the contractual conditions that relate to borrower contribution, reporting, use of loan proceeds, restrictions on dividends and additional borrowing, procedures for granting subloans, etc., are standard. At times, the Bank deems it necessary to require additional conditions that relate to organizational and administration change, technical assistance, accounting procedures, etc., to provide additional assurances that the project goals will be fulfilled effectively.

The Bank attempts to assign its people who have close contact with borrowers to areas and countries in a manner to avoid any possible conflict of interests with a country, borrower, or potential borrower. The study and approval process through which a loan must pass is designed to ensure that the request will be considered in an impartial and independent manner. The Bank satisfies itself that each project will have adequate and approriate technical supervision and it normally reserves the right to approve the borrowers' selections of consultants. Loans can only be approved by the Board of Executive Directors and a loan request is presented to the Board only after approval by a loan committee and top management.

SURVEILLANCE AND ADMINISTRATION CONTROLS

Once the loan has been approved by the Board, the responsibility for the administration of the loan and the surveillance of the project and its goals. including borrower compliance with contractual conditions, passes to the Loan Administration divisions—one of three arms of the Operations Department (Loans, Loan Administration, Project Analysis). The Loan Administration divisions, although separated from the Loan divisions, are organized by geograph-

ical areas which parallel those of the Loan divisions, thereby facilitating the passing of loan responsibility from the Loan divisions. The Loan Administration divisions are responsible for coordinating the work, information, and reports produced by the various technical and field personnel to provide day-to-day continuing surveillance and administration of the approved loan, the project, and the borrower.

Field offices of IDB, located in each member country, provide support for the Loan Administration divisions by carrying out continuous onsite inspection and technical surveillance of projects, financial and accounting reviews of costs, procedures, project investment, contract compliance, etc., together with control over bidding and procurement. This work is performed by the staff of each field office consisting of a corps of project specialists with different engineering or financial and accounting disciplines, a resident engineer, and a financial and operations officer.

The Loan Administration divisions have the responsibility of reviewing reports of project progress prepared by the borrower or the borrower's consulting engineers, reviewing the surveillance and inspection reports prepared by the Bank's project specialists, resident engineers and financial and operations officers, and the reports prepared by the borrower's independent auditors. These divisions ascertain that the borrower is complying with the contractual conditions and that the documentation accompanying a request for loan disbursement has been examined and tested by either the Bank staff in the field office or in Loan Administration. They are responsible for approving loan disbursements and for reporting to management and the Board on the progress of each loan and each project. Above all, the divisions are to continually compare the actual progress and direction of the project with that originally approved. Any sign of deviation is to be brought to the attention of higher management. The Loan Administration divisions are greatly concerned with the success of each project and are to be constantly alert for any impediments and their possible solutions. The Board reviews quarterly the status of problem loans and on an annual basis reviews the status of all loans.

The Project Analysis divisions, mentioned earlier, which are organized by engineering sector or professional discipline (including financial analysis) provide additional surveillance and service to Loan Administration by reviewing, analyzing, and evaluating the technical aspects of the various reports which are received by Loan Administration. They continually provide technical advice to Loan Administration on the various projects and assist in the evaluation of a disbursed loan or completed project in those cases when an existing borrower submits an application for another loan. The Loan Admistration officers and the project analysis staffs make periodic visits to the borrowers.

FINANCIAL, AUDIT, AND EVALUATION CONTROLS

Various types of statistical, operating, and progress reports, as well as financial reports, are generated for review by different levels of management thus making information available to all who need to know. The status and problems of certain loans are discussed and evaluated in management groups for greater opportunities for solutions.

An additional control exists in that Treasury, not Loan Administration, disburses moneys to the borrower. Treasury also computes and prepares billings, receives collections, maintains close review for possible delinquencies, insures compliance with maintenance of value provisions, and provides surveillance over the general reserves. Treasury, in fact, provides separate surveillance over the financial aspects of the loan while Loan Administration coordinates surveillance of the project. Again, this separation is designed for loan control.

Independent External Auditors.—The international accounting firm of Price Waterhouse & Co., which also audits the World Bank, makes an annual examination of the financial condition and operating results of the Inter-American Development Bank. Their examination is designed to give the Board of Executive Directors, and the member countries represented, assurances regarding the Bank's overall financial position and results of operations. Their audit work includes tests of the different types of Bank transactions including disbursements, collections, interest, contracts, guarantees, maintenance of value, letters of credit, and, most important, loans. They also obtain direct confirmation from the borrowers as to validity, terms, and amount of loans receivable. They review the different aspects of internal control present in the Bank, including the

work of the Auditor General's Office and make recommendations if improvement appears necessary. Representatives of the firm are always available for possible questions the management or the Board might have. Their reports have to be presented and approved at the Board of Governors meetings.

Independent Internal Auditing.—The Office of the Auditor General is responsible to the Office of the President and Executive Vice President and is independent from all other units within the Bank. The Office of the Auditor General makes recurring reviews of activities throughout the Bank to determine if adequate systems and procedures exist, and are being followed, to provide adequate internal control. If not this office will make recommendations to the various units concerned and so inform the executive vice president. This office also performs compliance type reviews to determine whether or not the directives orders and policies of the Bank, with which the Bank or its staff must comply, are being followed. In addition, it performs "operational auditing" (management or goal oriented auditing) in order to determine if the goals of selected units or functions within the Bank are being fulfilled in the most effective manner.

The Office of the Auditor General has a small but highly skilled group that concentrates solely on Loan and Project Review. The group, consisting of a civil engineer, an agricultural engineer, and two auditors with broad experience in loans and general business, makes visits to selected field offices, project sites, borrower offices or other entities in order to test and independently observe: (a) the adequacy of on site inspections, surveillance, control and evaluation being provided by Bank staff in the field; (b) the degree of borrower compliance with Bank requirements; (c) the apparent effectiveness of the use of loan proceeds or funds to fulfill a specific project's objectives and goals; (d) the effectiveness of the Bank staff and consultants who are responsible for exercising inspection, surveillance, control and evaluation of Bank financed projects.

The Office of the Auditor General provides a review function, not an operating or a decisionmaking function. Its tests and reviews supplement the Bank's overall system of internal control, including the inspection, surveillance, and evaluation provided by the various operating units, field offices and Bank missions, but these tests and reviews do not, and should not, replace, or substitute for, the basic system of internal control.

Board of Directors Review and Evaluation Group.—In 1968, the Bank's Board of Executive Directors, in order to be responsive to a proposal from the U.S. Government, created a Review and Evaluation Group independent of management and in addition to the internal auditing being performed for maagement. The group is to provide for the Board of Executive Directors and through it, for the Board of Governors and the member countries, a program of selective and continuing independent and comprehensive examination of the manner in which the Bank is discharging its responsibilities under the Agreement Establishing the Bank.

The group is in operation and has begun to make reports to the Board.

SUMMARY

Loan control is a planned system to provide surveillance, control, audit and evaluation of Bank loans, capable of being amended when necessary, based on professional expert advice. This system stressed (1) preventive and prelending controls as well as (2) surveillance and administration controls. It also provides (3) financial, audit and evaluation controls to insure that the first two types of controls are working and to learn how they can be improved.

The entire system includes different types of auditing, at different stages, and for different purposes; however, there is no duplication. The Bank also stresses independence, separation of duties, prevention of conflicts of interest, on site inspections and engineering review, supporting documentation of loan disbursements and many other detailed controls.

Naturally, even with all these controls and auditing, many loan problems arise. Among some of the most common are: cost overruns due to construction delays and inflation, project delays due to budgetary problems of the borrower country and resulting slowness in making local currency contribution available, problems of completing complementary facilities at the same time (in a housing community, for example, houses, roads, electricity and sewerage), legislative delays (many countries require formal legislative approval of loans after the

loan has been approved by the Board, but before signing), administrative weaknesses of borrower, unexpected engineering problems, et cetera. These are, however, the normal problems of development lending and are one of the basic reasons why development banks exist. Infrastructure loans may always have pitfalls, even in the United States. Nevertheless, although the Bank has loans with problems of the type mentioned above, its loan experience has been a successful one, due in large part to the loan control techniques described.

The goal is to maximize the safeguards over fulfillment of the Bank's purpose, operations and assets for our management, the Board, and our members, but at a cost which will not become excessive to the Bank or to its borrowers. The Bank will be continually alert to improve its loan control system.

LATIN AMERICAN PROGRESS

Mrs. Reid. Are you satisfied with the efforts the nations of Latin America have made to date in financing their development?

Mr. Petty. By and large, yes. That is a hard one. We are talking about 22 Latin American members of the bank. My answer cannot be the same for all 22 countries.

What does impress me, though, if we look at it over the past decade, is the amount of contribution that the countries have made, on their own determination, to the development plan, and the type of development plans they are working on. There is a very clear upward trend line in the amount of resources they provide, in the quality of management they provide to their own projects, and in their own development planning.

So I am particularly pleased with the trend and perhaps in some areas I would like to see more effort.

ENCOURAGING PRIVATE INVESTMENT

Mrs. Reid. Has the effort of the lending activities of the bank encouraged commercial banks and other lending institutions both in the United States and in Latin America to become more active in making loans for purposes similar to those financed by the Inter-American Development Bank.

Mr. Petty. Very clearly the role of Inter-American Bank in being a partner, stimulating all aspects of the private sector in Latin America, not just the commercial banking sector, is a very real aspect and a very real plus to the institution.

I might add that the new president of the bank intends to give increased emphasis in this area. We do think we must foster more the private sector there, and the Inter-American Bank could be a very important catalyst, directly and indirectly in doing this.

RETIRING OF BONDS

Mrs. Reid. It is my understanding that capital has been raised from bonds issued, floated on private markets or placed directly with governmental institutions.

What is the schedule for eventually retiring these bonds?

Mr. Petty. This is an ongoing expanding bank. The 5-year bonds that were floated 5 years ago became due last year, were refinanced, and interest was paid from the current earnings of the institution.

In the order of two-thirds of the ordinary capital loans of the Bank, hard loans, are made from borrowed resources, reducing the need for appropriated cash resources to fund or development objectives.

So I would hope that the value of borrowed resources would continue to increase, reducing the call upon budgeted resources to expand the operation of the Bank. This is the reason behind the $337 million callable capital contribution. That is a guarantee capital, it is not appropriated funds, in the sense of cash expenditures, because with this guarantee capital they go to the private market and get new money for the Bank

Our objective is to stretch out the length of that debt as long as possible to sustain the long-term development lending program that the Bank has.

Mr. PASSMAN. Would the gentlewoman yield?

Mrs. REID. Yes, Mr. Chairman.

Mr. PASSMAN. We are dealing with appropriated funds. This money is appropriated. You could call it in 30 minutes, could you not?

Mr. PETTY. On the callable capital?

Mr. PASSMAN. Yes.

I mean the Congress appropriates the money, and it is available for call any time without any further notification to the Congress or its committees, is it not?

Mr. PETTY. Not on the callable capital, Mr. Chairman, unless the conditions for call exist.

Mr. PASSMAN. Then why are you asking us to appropriate it?

Mr. PETTY. Well, it is against the callable capital that, if the Bank is unable to meet its own obligations——

Mr. PASSMAN. Then they can, without any further notice, call on this callable capital?

Mr. PETTY. Pari passu, with the call on the other members' capital.

Mr. PASSMAN. I know that. But I will get into it further on my time.

Thank you, Mrs. Reid.

Mrs. REID. That is all, Mr. Chairman.

Mr. PASSMAN. I apologize.

I just wanted it understood that we are dealing with appropriated funds in this request.

Mr. Hathaway?

IDB AUDITING PROCEDURES

Mr. HATHAWAY. Mr. Petty, I want to welcome you to the committee.

What auditing procedures do you have for the Bank?

Mr. PETTY. Several, first Price-Waterhouse conducts its normal financial audit of the type they do of our major financial institutions.

Second, there is an internal audit of the procedures and operations of the Bank.

Then there is what is now called the Selden amendment audit, which is a board, an audit group of three men that reports to the executive board on a management type of audit.

This is an end use, comprehensive audit, not the "finger-in-the-till" type of evaluation. Operations evaluation audit, I should call it.

STRICTER CONGRESSIONAL CONTROL

Mr. HATHAWAY. Many members of the House have advocated that there be a stricter congressional control of the loans made with our money. What effect do you think this would have on the operations of the Bank?

Mr. PETTY. In an institution like this, in which we, along with other countries—in this case 22 other countries—share membership, there is a degree of arm's-length transaction that is consistent with a partnership where no one partner dominates and controls the institution. Because if that is done, it is not a multilateral institution.

We have been very conscious of the concerns of Congress and our own. Subsequently, I hope to elaborate on the point that Mr. Roybal made, which is that we have, following the indication of the chairman and other committee members last year, sought changes in different provisions and policies within the Bank so that the voice of Congress and the representatives of the taxpayers are heard through our executive director in the policies and operations of that institution.

Mr. HATHAWAY. Do you feel that the other 22 countries would not contribute any more if we had a greater control?

Mr. PETTY. At a certain point you lose the value of the multilateral institution, where we are getting their own involvement, their own contribution of resources, their own commitment really to the whole development process of Latin America.

They feel this; this is a vital element of this partnership with Latin America. We are quite convinced that the controls and procedures and the efforts that are being made to constantly improve them, satisfy our business criteria, but again with the benefits of greater developmental contribution.

EXPANSION OF IDB MEMBERSHIP

Mr. Hathaway. Is there a chance of other countries besides the United States and the other 22 getting involved as participants?

Mr. PETTY. Yes, sir.

Mr. HATHAWAY. Not as borrowers?

Mr. PETTY. No.

Negotiations are presently going on among the board of governors and shortly will commence with other possible donor countries. Under one eventuality, the U.S. share of the bank of 42 percent could diminish say to 37 percent, the difference being picked up by other donor countries who would help share the bill.

Under another possible configuration of the result of the negotiation, it might even go a little bit lower than that. So there are deliberate efforts to bring in other donor countries to carry this burden.

Mr. HATHAWAY. What other countries?

Mr. PETTY. Canada, the donor countries of Western Europe, such as Germany, England and Sweden, and Japan, would be the doors we would knock on.

Mr. HATHAWAY. And you are negotiating with them?

Mr. PETTY. Yes, sir; we are with the Latins, and we and the Latins will shortly do so with the others.

EXPERIENCE ON LOAN COLLECTIONS

Mr. HATHWAY. Just one last question.

What has been the loan experience? I suppose you could just tell the hard ones and the soft?

Mr. PETTY. There are two bad loans that go back to the early 1960's; one was charged off after a partial recovery; the other is now being worked on. There are no other bad loans.

Mr. HATHAWAY. What are those two bad loans, what do they amount to?

Mr. COSTANZO. In both cases they were to private companies. One was to a company in Brazil, in the amount of $8.7 million; the second one was to a company in Argentina in the amount of $3 million.

Mr. HATHAWAY. We have lost the entire amounts, no security or anything could be recovered?

Mr. COSTANZO. No. There was a recovery on the loan to Argentina in the amount of about $1 million; a loss in the amount of $1.8 million was written off by the Bank.

In the Brazilian case, foreclosure proceedings are currently pending and it is hoped that the Bank will be able to recover.

Mr. HATHAWAY. Are those both government-guaranteed?

Mr. PETTY. No, no government guarantees on either of these loans.

Mr. HATHAWAY. Is it customary to get government guarantees?

Mr. PETTY. It is now, it was not in the early days of the bank.

Mr. HATHAWAY. Thank you, Mr. Chairman.

Mr. PASSMAN. If the gentleman would yield before yielding back.

Mr. HATHAWAY. Certainly.

Mr. PASSMAN. I would like to have you place in the record at this point: The date that the loans were actually approved, the dates of the disbursements, and the terms of those loans. Without getting too much into detail, do you remember at this time the terms of the loans? Were they for twenty years or forty years?

Mr. COSTANZO. I would assume they would have been shorter than that. These are ordinary capital hard loans.

Mr. PASSMAN. Do you have it?

Mr. COSTANZO. The Brazilian loan was made in 1961, with a final maturity date in 1971.

Mr. PASSMAN. All right. How about the other one?

Mr. COSTANZO. The Argentine loan was approved in 1961. I do not have the information here on the final maturity date, but as an industrial loan it probably would have been about ten years also.

(The information follows:)

LUTCHER S.A., CELULOSE E PAPEL

First Loan — Approved March 31, 1961

U.S. dollars	US$ 2,500,000
Brazilian Cruzeiros-U.S. dollar equivalent	2,200,000
Total Loan	$ 4,700,000

Disbursed:

Year	Amount
1961	$1,251,817
1962	3,231,174
1963	217,009
	4,700,000
Less repayments	705,000
Balance unpaid	$3,995,000

Terms:

- Security - first mortgage on land and buildings and chattel mortgage on machinery and equipment.
- Principal repayments to be made in 16 semi-annual installments in proportion to the currencies loaned commencing December 15, 1963 with final payments not later than June 15, 1971.
- Interest at the rate of 5.75 percent per annum on principal amounts outstanding.
- Commitment fee of 0.75 percent per annum on undisbursed balances.
- Final date for disbursements - June 14, 1963.

Second Loan — Approved April 14, 1964

U.S. dollars	US$ 4,000,000

Disbursed:

Year	Amount
1964	$3,954,352
1966	32,340
	$3,986,692

Terms:

- Security - extension of mortgages of first loan to cover second loan.
- Principal repayments to be made in 8 semi-annual installments commencing December 15, 1971.
- Interest at the rate of 5.75 percent per annum on principal amounts outstanding.
- Commitment fee of 0.75 percent per annum on undisbursed balances.
- Final date for disbursements - May 1, 1967.

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VIALSA, S.A.

First Loan — Approved December 14, 1961

U.S. dollars		US$ 2,200,000

Disbursed:

Year	Amount
1962	$ 454,544
1963	639,318
1964	1,064,711
1965	39,470
Total	2,198,043
Less repayments	220,000
Balance unpaid	$1,978,043

Terms:

- Security - first mortgage on land and buildings and chattel mortgage on machinery and equipment.
- Principal repayments to be made in 19 semiannual installments commencing June 15, 1965, with final payment not later than December 15, 1973.
- Interest at the rate of 5.75 percent per annum on principal amounts outstanding.
- Commitment fee of 0.75 percent per annum on undisbursed balances.
- Final date for disbursements - June 15, 1965.

Second Loan — Approved August 12, 1965

U.S. dollars		US$ 600,000
Argentine pesos-U.S. dollar equivalent		200,000
	Total Loan	$ 800,000

Disbursed:

Year	Amount
1965	$ 283,166
1966	255,150
1967	135,250
Total	$ 673,566

Terms:

- Security - extension of mortgages of first loan to cover second loan.
- Principal repayments to be made in 14 semiannual installments to begin June 15, 1967.
- Interest at the rate of 6 percent per annum on principal amounts outstanding.
- Commitment fee of 1 percent per annum on undisbursed balances.
- Final date for disbursements - December 31, 1967.

Mr. PASSMAN. So you are actually being a little hasty, are you not, in charging off a loan when actually the last installment has not matured?

Mr. COSTANZO. Actual defaults occurred.

Mr. PASSMAN. You had defaulted, but you said you had charged it off, already, half of it, did you not?

Mr. COSTANZO. The bank foreclosed——

Mr. PASSMAN. All right.

Mr. COSTANZO. After the default.

Mr. PASSMAN. Are they in bankruptcy? Are they out of business?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. Did you liquidate all the assets?

Mr. COSTANZO. Yes, sir; they were liquidated in the Argentine case.

Mr. PASSMAN. These are the types of projects the committee is going to look at in the future. I think it would help make a better operation. It is not going to be as easy as you gentlemen figured this year, to come here and skyrocket these multilateral organizations and take the control of funds away from this committee with no right of examination on the projects. These programs are being fragmentized.

Mrs. REID. Would you yield at this point?

Mr. PASSMAN. Yes.

Mrs. REID. I would also like to know when you supply all of this information for the record just what procedures do you have for collecting loans that are in default?

Mr. HATHAWAY. If you will yield further, you could also tell us the percentage of the loans.

Mr. PASSMAN. Put the information in the record on those two cases.

(The information follows:)

All loan contracts contain provisions on the action to be undertaken in case of a default under the loan. In most cases the contract provides for a guarantor which normally is either the Government or a governmental development bank, although occasionally it may be a commercial bank or other entity. In such cases, a separate contract of guarantee is signed which comes into play if the borrower does not meet its scheduled amortization and interest payments. In the early days of the Bank some loans were secured by mortgages or other liens which in case of any default would be foreclosed upon.

RECAPITULATION OF UNPAID BALANCES

	Lutcher S.A.	Vialsa S.A.	Total
1st loans	$3,995,000	$1,978,043	$5,973,043
2d loans	3,986,692	673,566	4,660,258
Total	7,981,692	2,651,609	10,633,301

Note: The total of $10,633,301 unpaid under the 4 loans is equivalent to 1.61 percent of $661,507,741 in ordinary capital loans outstanding as of Dec. 31, 1970.

Mr. ROYBAL. Mr. Chairman, may I also be permitted to submit to you a list of questions with regard to several other loans, which in my opinion are not good loans?

Mr. PETTY. We will be very happy to receive them, to report and discuss them as you wish, sir.

Mr. PASSMAN. I hope, even if there are prolonged sessions, even night sessions, that we will get to the bottom of some of these bad loans and find out what it is all about.

Let me assure you, Mr. Director, there is nothing personal about this examination, but we must get it on the record. I want to read this verbatim from the justification material submitted by the Inter-American Development Bank.

"Consequently, it is important that the $50 million of paid-in capital and the $336.8 million of callable capital for fiscal year 1971 be made available through a supplemental appropriation."

Did I read that correctly?

Mr. PETTY. I am sure you did, sir.

Mr. PASSMAN. I want you to verify it. This is yours, not mine. Did I read it correctly?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. So we do appropriate the money, do we not?

Mr. PETTY. Oh, yes, indeed.

FULL FAITH AND CREDIT OF THE UNITED STATES

Mr. PASSMAN. That is wonderful. We have been told that if we would appropriate the money it would make it much easier, because the good faith and credit of the United States is not sufficient.

You might refresh your memory. I don't know whether you testified or your predecessor. Perhaps some of you remember the interrogation, where we were told that it would be better if we appropriate the money. Now we do appropriate the money. Would it not serve the same purpose if the good faith and credit of the United States was substituted for the actual appropriation? Wouldn't that be as good as an appropriation in the callable capital category?

Mr. PETTY. There is no question in my judgment, sir; whether or not we seek an appropriation of this callable capital.

Mr. PASSMAN. But you are asking for all of this callable capital to be appropriated and to be on hand. We are not moving on the good faith and credit of the United States that in case of default we will put up this much money. You are asking for the money to be appropriated in advance.

Mr. PETTY. Yes, sir.

Mr. PASSMAN. So it will be available, isn't that correct?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. After we appropriate this money, then it is available to you people under your formula, in the event that there should be some upset in the operation?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. And you have access to it without any further notification to any of the committees of the Congress?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. That is what I wanted to clear up.

Mr. PETTY. The other situation would be to go out and have someone make a commitment in effect with recourse to the U.S. Government, with the full faith and credit behind it, without having it appropriated, and then come back in case of trouble and say, "Look, Congress, please pick up the chips."

Mr. PASSMAN. That is just like saying the United States is not trusted and the only way we can do business is for the United States

to appropriate that money. It should be understood that all the countries will pay their part if and when it is needed. It looks to me like it would be sufficient to say, all right, if there should be a default then we are willing to come in for this amount.

Mr. PETTY. You are not recommending, are you, Mr. Chairman——

Mr. PASSMAN. That the money not be appropriated but that there be some indication that we are guaranteeing defaults up to this amount of money.

Mr. PETTY. But the point I am trying to make, is that lacking this, and in an emergency, having to call upon it we would be coming back to the Congress to——

Mr. PASSMAN. Then you are anticipating you would have to lose this account.

Mr. PETTY. That is not my point. Further, this undertaking is required by and satisfies the private bond market. It is the private capital sources which give a multiple of two or three of paid in resources.

Mr. PASSMAN. I don't know how the committee feels but I can tell you I am frustated, frightened, disillusioned and dissappointed that the people downtown would put out press releases which state: "U.S. moves to reduce AID role overseas", and then we see large increases requested for the multilateral institutions. The foreign assistance request this year is the highest in the history of the aid program, when you put all pieces together. Last year we had 27 spigots. I think you gentlemen are familiar with them. We put out this list of them each year. The total last year was $12,133,525,000. This year the 27 spigots total $13,517,628,000, and we find that large amounts are being scattered into the Inter-American Bank, Asian Development Bank, and the International Development Association, Members of Congress, who are busy on other committees say wonderful, we are reducing aid but it is actually increasing. I don't believe the President looked at this or he would not have permitted this document to come down. Let me proceed with the examination. I will give you one of these with my compliments. They come right out of the budget.

Just a few of us can take the time and have the time to go into this, but you people have, including all spigots of aid, some 60,000 on the payroll, if you pick up all categories, and all of them are some type of an ambassador for foreign aid.

IMPOUNDING OF AID FUNDS

Am I correct or not in stating that in Mr. Johnson's closing years, it was either his last year or the year before he went out of office, that there were substantial funds impounded for all types of public works projects in America, including school construction, colleges, flood control, rivers and harbors. Are you gentlemen familiar with that?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. I believe we established for the record that at that time not one single foreign aid program anywhere on the face of the earth, about 4,000 of them in 99 nations, had one dime impounded. Is that the record?

Mr. PETTY. I am not sure of that fact. I could imagine that being the case.

Mr. PASSMAN. It sounds like the record, doesn't it? Sometimes I am ashamed to face my constituents since that is the record. I am going to be surprised if you people get half of what you are asking. You might as well make up your minds you have a rough road to travel because we have to borrow this money. We have to close projects down in America to start these projects. I believe that Mr. Nixon last year put certain important projects in the deep freeze, such as flood control, reclamation, schools, rivers and harbors, is that correct?

Mr. PETTY. As part of the anti-inflationary program there was some of this, yes, sir.

Mr. PASSMAN. Isn't it true that he did impound funds?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Do you know of a single foreign aid program that has been put in the deep freeze?

Mr. PETTY. I know of many foreign aid programs where project loans and disbursals have not been made, have been held up because——

Mr. PASSMAN. Do you know of any that were ongoing, where they had been 85 percent completed, where they were put in the deep freeze and closed down for lack of funds? Can you name one?

Mr. PETTY. No, sir.

Mr. PASSMAN. Thank you very much. You have answered my question. That is the record. That is what frightens me, because we seem to place a priority on people all over the world, and hold back important projects in our own country.

Mr. PETTY. I think it is worth making the record complete, Mr. Chairman, where the lending operations of these institutions—I have in mind IDA and the World Bank during the period you are talking about—was actually held up because——

Mr. PASSMAN. I asked you to cite one for the record. I want you to cite a project for the record. I say this very respectfully. Cite a project. I am not citing names. I want you to cite a project. I can show you good flood control projects, reclamation projects, school buildings and others where they put the money in the deep freeze. I want you to cite for the record one specific foreign aid project by name where an ongoing project had to be closed down because you didn't have funds to allocate.

Mr. PETTY. I can cite projects that were postponed for a year because of——

Mr. PASSMAN. You are talking about projects that hadn't been started. I am talking about projects that had been started, ongoing, that you closed down. Will you put one in the record and at some subsequent date we will return and discuss it?

Mr. PETTY. All right, sir.

(The information follows:)

PROGRAM REDUCTIONS

Of the $12.7 billion indicated by the Deputy Director of the Office of Management and Budget on March 24, 1971, as being withheld from obligation, the

amounts being withheld that relate to projects on programs in the foreign field are as follows:

	Millions of dollars
A. Economic Assistance	191
Supporting Assistance	14
Prototype Desalting Plant Project	20
Development Loan	47
Foreign Investment Guarantee Fund	110
B. Military Programs	200
C. Foreign Agricultural Service	4
D. Inter-American Cultural and Trade Center	6
E. Inter-American Highway Project	(1)
Total	401

[1] Less than $0.5 million.

Since the Inter-American Development Bank follows the practice of not making a loan commitment until full funding of the project is in hand, cases of the closing down of projects in the course of execution do not arise.

REQUEST IN PRIOR FISCAL YEAR

Mr. PASSMAN. Concerning the Inter-American Development Bank, you are requesting $50 million of paid-in capital stock for fiscal year 1972 plus an additional $486,760,000 that would be made applicable to fiscal 1971?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. At the time that you appeared before the committee last year, did you make any reference to this item, what the need may be before the end of the current year? You didn't anticipate at that time that you would need this supplemental, did you?

Mr. PETTY. Yes, sir; this was part of the authorizing legislation for 1971.

Mr. PASSMAN. I say did you state to the Committee on Appropriations when you came before us that you would be making a supplemental in this amount applicable to the current fiscal year?

Mr. PETTY. It was in the budget for fiscal 1971.

Mr. PASSMAN. That is a good statement, but you didn't answer my question. Did you testify before this committee: "Mr. Chairman and members of the committee, we will come in for a half billion dollar supplemental before the end of the fiscal year."

Did you make such a record before the committee?

Mr. PETTY. I will have to check the record. I haven't read the record recently.

Mr. PASSMAN. You mean to tell me that you don't actually know when you are dealing in figures of a half billion dollars whether or not this was mentioned to this subcommittee?

Mr. PETTY. I am saying I haven't read my exact words that I testified.

Mr. PASSMAN. On this?

Mr. PETTY. On this point.

Mr. PASSMAN. What did you say for it?

Mr. PETTY. That we did discuss it last year, the negotiations in the multilateral institutions, the other programs. I believe we were here last year on the Asian Development Bank.

Mr. PASSMAN. I am talking about the Inter-American Bank now.

Mr. PETTY. I don't believe I had the privilege of testifying on the Inter-American Development Bank last year.

Mr. PASSMAN. Thank you very much. You have answered my question. You have the right to take the long way around, but I am going to follow you closely. You don't recall testifying on this amount. That was the question I asked. You don't remember it and I thank you.

Mr. PETTY. But I do recall advising members of this committee that we were at that time in negotiations with the Latin Americans on capital replenishment of the Inter-American Development Bank.

Mr. PASSMAN. You didn't state any figure of that magnitude did you?

CONTINGENCY ITEM IN FISCAL YEAR 1971 BUDGET

Mr. PETTY. At that time under negotiations there was a contingency item in the President's budget of $540 million, but no specific amounts on it because we were at that moment in the course of negotiations.

AMOUNT OF FUTURE REQUESTS

Mr. PASSMAN. You have answered my questions the second time in the affirmative. You had no figure. That is why it is very staggering to me to have requests of this magnitude. Today you are asking us to consider a request for $50 million for paid in capital stock for fiscal year 1972, and for $486,760,000 for several supplemental items applicable to fiscal year 1971, is that correct?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. I notice in the budget and in your justifications that you plan to request about $1,823,520,000 in the next 2 or 3 fiscal years; is that correct?

Mr. PETTY. Yes, sir; including the present requests.

Mr. PASSMAN. As I stated earlier, really we are going to have to borrow this money, aren't we? We are going to be operating on a $20 billion deficit for this fiscal year, and in all probability the same thing is going to be true in the next fiscal year, and in these instances the money will have to be borrowed, won't it?

Mr. PETTY. Certainly the callable capital will not, sir.

Mr. PASSMAN. I am talking about the cash outlays.

Mr. PETTY. Where we have revenues of about 90 to 95 percent of our expenditures, that differential will have to be borrowed.

NEED FOR CALLABLE CAPITAL

Mr. PASSMAN. And isn't it also true that under your previous statement, you could be confronted with an emergency and would have to call for this callable capital and maybe you wouldn't have time to come to the Congress for an appropriation? Is that why you want the callable capital available?

Mr. PETTY. We want the callable capital to make sure that we can get the money out of the private market, so the development objectives will be achieved without——

Mr. PASSMAN. In the event you don't do that, and you have to call on Uncle Sam, then you have the right to call for this money and spend it, do you not?

Mr. PETTY. For the purpose of making good the Bank's obligations.

Mr. PASSMAN. So if you have any upsets in the economy or maybe they are defaulting in other countries and you have to have this money known as callable capital, our country would have to borrow it, would it not?

Mr. PETTY. This is characteristic of any government guarantee program.

Mr. PASSMAN. I didn't say how characteristic. I just want a direct answer. That is correct, isn't it?

Mr. PETTY. Yes, sir; and in the Banks for Cooperatives too.

REQUESTS FOR OTHER INTERNATIONAL BANKS

Mr. PASSMAN. If you will give us a brief answer, you will save a lot of money in printing this record.

Is it not also true that other international financial institutions, such as the World Bank, International Development Association, and Asian Development Bank, are seeking additional authorization for funds applicable to fiscal 1971 as well as 1972?

Mr. PETTY. Yes, sir, the World Bank and——

Mr. PASSMAN. IDA?

Mr. PETTY. Not IDA. That is fiscal 1972, not 1971.

Mr. PASSMAN. I want to get them all, because as I said, there is nothing personal about this, but somebody is taking this committee and this Congress for a ride. I think the Asian Development Bank is asking for $60 million, aren't they?

Mr. PETTY. For 1972?

Mr. PASSMAN. Fiscal year 1971. Take your time and look at your own records. Am I correct?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Do you see the committee's point, when you are asking the United States to provide these additional moneys and it appears now that the lowest deficit we can expect on June 30 is $18 billion, and in all probability the deficit for fiscal year 1972 could conceivably be higher? Don't they really appreciate having a committee like this, that would try to make a case and establish that some of these things should be postponed until we can again operate on a balanced budget?

Mr. PETTY. Mr. Chairman, I think as a Treasury officer these are exactly the types of questions we examine too, in preparing our budget requests for this type of program, and I think the questions you raise are exactly the correct ones. This is why, for example——

Mr. PASSMAN. You say you do think they are the correct ones?

Mr. PETTY. Absolutely.

Mr. PASSMAN. I appreciate that.

Mr. PETTY. This is why, for example, the appropriations request for the Asian Development Bank was cut from $200 million to $100 million during the same period when you were referring earlier to the impounding of Federal expenditures. We have responded in the multilateral lending area to the same type of domestic priorities you have identified, sir.

Mr. PASSMAN. God only knows if you hadn't had the impounding or the instructions to cut back, just what you people would have asked for because you are above last year anyway.

EXPORT-IMPORT BANK

Mr. PETTY. I am sure that I myself put the $4 billion for the Export-Import Bank under your 27 items in quite a different category.

Mr. PASSMAN. I am not examining the Export-Import Bank at this time. I would rather stick with the subject, and if you want to assign time for the Export-Import Bank when the time comes we will be glad to let you in on that too. We know under the Export-Import Bank that some of the loans now have maximum maturities of 25 years, have they not?

Mr. PETTY. I think that is correct, yes, sir.

Mr. PASSMAN. You also have another window under the Export-Import Bank where the credit criteria has been lowered to where they don't have to meet the standard criteria, is that true?

Mr. PETTY. Yes, sir.

Mr PASSMAN. And then they also provide, when these loans default, a way to even charge them off. I believe that is also in the legislation, isn't it?

Mr. PETTY. The provisions of charge-off of Export-Import Bank loans.

Mr. PASSMAN. In the draft of the Patman bill you lowered the credit criteria.

Mr. PETTY. On the Export-Import Bank.

Mr. PASSMAN. That is right and you even provided where these funds would come from when they defaulted. So much would be withdrawn from the Treasury and the other taken out——

Mr. PETTY. That is exactly right.

Mr. PASSMAN. Thank you very much. Do you know why I put it in there? Because you have those who are trying to turn the Eximbank into an AID agency and have succeeded in getting one window of the Eximbank opened up——

Mr. PETTY. I think the committee should then realize the most recent loan passed by the Export-Import Bank is for the sale of aircraft to a developed country of Western Europe where the air charter airline in Western Europe is hoping to bring more European tourists to the United States, serving two purposes, one, to help our aeronautics industry and two, to help foreign travellers increase tourist travel to the United States.

Mr. PASSMAN. Let's hope they succeed but that doesn't alter the fact that you now have three windows, the regular window, the long-term window that goes up to 25 years, and you have the one that provides

loans to be made with a lower credit criteria than those carried in the regular operation.

Mr. PETTY. I am suggesting an aircraft loan to Western Germany——

Mr. PASSMAN. You did answer in the affirmative, didn't you?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Let's hope they sell a lot of aircraft and make a lot of profits. I am talking about the fact it has been modified to where you actually have one window of the Eximbank as a first cousin to foreign aid. That is why we list it where any American can judge for himself. We are not criticizing, but giving the actual facts. If you check with the budget, if you find this is off $2 I will buy you a new tie. I am talking about $13,517,628,000. We have to look at the figures. I know you people are going to do your best to justify it, but even you people of the Treasury Department should keep in mind that if you should confiscate all the wealth in America and turn it into money, you will still not have sufficient funds to do all the things labled desirable.

Mr. PETTY. I would suggest that the example I just gave the committee is more properly called domestic assistance than foreign assistance.

Mr. PASSMAN. Domestic comes first, does it not? Isn't your first obligation to your own family?

Mr. PETTY. There is no doubt about it.

Mr. PASSMAN. Before you start looking after your neighbor's?

Mr. PETTY. There is no doubt.

RIGHT OF DETAILED EXAMINATION BY CONGRESS

Mr. PASSMAN. Thank you. I thought you would give an affirmative answer there.

Mr. Director, as is indicated in the budget, we are heading more in the direction of providing increased aid through multilaterial institutions, where Congress does not have the right to detailed examination. You agree to that, do you not?

Mr. PETTY. Yes, and I think this is why——

Mr. PASSMAN. Thank you. We want answers. We don't want you to filibuster.

Last year, if you will remember, this committee placed several limitations on the funds provided for those institutions which would have provided Congress with detailed justifications on the projects. As soon as this was discovered, individuals in those institutions said this could not be done because other nations would place the same restrictions on their funds. Do you remember that last year?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. What is wrong with our Nation having the right of examination, and giving other donor nations the right of examination? Don't we have a partnership here?

Mr. PETTY. I am mindful of the testimony of the Comptroller General of the United States, who on this point——

Mr. PASSMAN. Did you people support it until you heard from him or did you get him to oppose it?

Mr. PETTY. The issue, Mr. Chairman, on those two amendments, as I recall the chronology, arose after the statement to which I wish to refer that Mr. Staats made, I believe, in March of last year. The exact quotation I don't have, the point of which was—I may have it here—he recognized that when the United States joins an international or multilateral organization, there is really a certain delegation and a certain expression of confidence in these institutions. If I may give you the exact quote, sir, the one Secretary Kennedy used last year——

Mr. PASSMAN. Will you also put in who prepared the quote for him, but read it. We will listen.

TESTIMONY OF COMPTROLLER GENERAL

Mr. PETTY. I think it will be quite clear that we discovered this 2 months after he testified. This is Comptroller General Staats speaking:

> We recognize that U.S. efforts toward improved management of activities of the international organization, of which the United States is a member, must be undertaken and assessed within the framework of the character of the organization and that membership

This is the phrase I was trying to recall—

> presumes a willingness on the part of member nations to rely on the management of the organization. We also recognize that constraints on actions that can be taken unilaterally are an inherent part of such membership, no matter how constructive the proposed actions might be.

OPPOSITION TO SECTIONS 504 AND 505

This is why, sir, in our administration's response to sections 504 and 505, last spring we felt that we could achieve the purpose which Congress clearly expressed and so properly expressed through the procedures and techniques available within the multilateral institutions.

Mr. PASSMAN. Then, of course, the Department did oppose the amendment. I don't like to say, "my amendment," even though I proposed it because it was approved all the way through the House. You people did not approve this amendment as a policy body.

Mr. PETTY. That is correct. We believed that that would be counter to the multilateral institution concept.

Mr. PASSMAN. I don't care what you think. We will clear that up later. You opposed it?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Now the question: What would be wrong with passing such an amendment giving the Members of the Congress the right to examine, in detail, on those projects known as multilateral projects, contained in the multilateral organizations? We put up, in all probability, about 75 percent of the money, 40 percent direct, but most of the recipient nations get back two or three times what they pay in. What is wrong with the responsible committees of the Congress examining these projects. Why couldn't it be done and why couldn't we inform other nations that this will be the policy in the future? What is wrong with that?

Mr. PETTY. I think we should recall that the provisions of sections 504 and 505——

Mr. PASSMAN. Let's amend sections 504 and 505 and you answer my question: What would be wrong with this committee or any other responsible committee of the Congress having the right to examine these projects?

Mr. PETTY. Each individual project——

REVIEW OF PROJECTS BY CONGRESS

Mr. PASSMAN. If we should make up our minds that it was necessary. Remember, you have 4,416 projects in 99 nations and four territories of the world. We couldn't examine on all of them. We would be very lucky if we examined on 25 of them. I am asking why shouldn't we have the right, if we should decide with a certain project that we should go out and look at it, if it is funded under a multilateral organization. What is wrong with it?

Mr. PETTY. It would be challenging the essence of the multilateral organization, Mr. Chairman.

Mr. PASSMAN. We like challenges.

Mr. PETTY. It is the point I was trying to make earlier. A detailed audit by an agency of one member is inconsistent with the multilateral character of these financial institutions.

Mr. PASSMAN. We usually put up, as one nation, about 40 percent of the money going to all these multilateral organizations.

Mr. PETTY. Twenty percent of the Asian Bank, 27 percent of the World Bank hard loans, 40 percent of the World Bank soft loans.

Mr. PASSMAN. Let's get back to the real old give-away agency, how about the International Development Association?

Mr. PETTY. We give 40 percent of the donor countries.

Mr. PASSMAN. I believe many of the recipient countries who we call donors are the recipients of it, are they not? Don't they borrow sometimes as much as 40 times as much as they pledge? Let's go to Pakistan and India. Aren't they members?

Mr. PETTY. They are not donor countries.

Mr. PASSMAN. Are they members?

Mr. PETTY. That is right, they are borrowing, but not donor countries.

Mr. PASSMAN. Look at the record. Some of them put up very small amounts.

Mr. PETTY. That is token capital, right.

(Discussion off the record.)

Mr. PETTY. There are two categories of members, donor countries and borrowing countries.

Mr. PASSMAN. Let's take India's subscription. In last year's hearings we were told it was $40,350,000, and yet India received $1,092,600,000 out of the organization.

We do this so that when you come to us talking about the multilateral organizations like IDA, we believe that we actually put up possibly 90 percent of the total, because we list these nations as donors, but at the same time they are recipients of very large grant aid programs, to fund their commodities, releasing to them their earnings where they can make these token contributions. Let's get back to the basic question. Don't you think we could come up with a formula, when

we start making these pledges? All you have to do is to propose it and stand firm that we are willing to proceed on this formula, but we want the right of examination, that the committees of the Congress insist on having the right of examination on any selected projects. What would be wrong with it, if we felt that we should examine them?

Mr. PETTY. I think that Congress accepted an appropriate middle ground between the need for full information, full disclosure, full access on the one hand, and infringing upon the multilateral character of an institution on the other, when they adopted the Selden amendment. The Inter-American Bank has really, upon the initiative of Congress, established——

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. The basic question is: "Couldn't we discuss a formula that would make it possible for the responsible members of the committees of Congress to go out and examine projects or to have you people bring the information on any project we wanted where we could examine it?

Mr. PETTY. I think we are doing this pretty well, Mr. Chairman.

Mr. PASSMAN. Where?

Mr. PETTY. We have had recently a project visited in Buenos Aires when we were down there, half a dozen members of the House Banking and Currency Committee, which visited an urban development project in Buenos Aires last month.

MAILLARD AMENDMENT

I think Congressman Hays set a precedent and made a record on this as to what is the appropriate balance between what you are seeking and what we are seeking to provide. Here I refer to the Maillard amendments, so called, where it is a fund that is 100 percent U.S. sources.

Mr. PASSMAN. We have that right on bilateral, do we not?

Mr. PETTY. Yes. sir, where it is 100 percent U.S. money.

Mr. PASSMAN. We don't have that same right on multilateral.

Mr. PETTY. Not where it is not 100 percent U.S. money.

Mr. PASSMAN. Thank you very much. You answered a question straight out. Where it is not 100 percent U.S. funded, it is multilateral, isn't it?

Mr. PETTY. Our formula is usually quite a distance away from 100 percent.

Mr. PASSMAN. I ought to be satisfied with a complete and forthright "Yes" answer. I shoudn't harass you any further.

The way we handle IDA, when we make the appropriation, it is turned over to them as a lump sum, is it not?

Mr. PETTY. We give them a letter of credit which they draw against. We don't have the lump sum money.

Mr. PASSMAN. That goes in with all of the other donor nation's contributions and is put in one account and disbursed out of that one account, is it not?

Mr. PETTY. Yes, sir.

U.N. AGENCIES AND FUNDS TO CUBA

Mr. PASSMAN. So in reality that, within itself, might justify you people in saying, as I think you have said before, "We haven't given this country any U.S. funds," but we find that even Cuba participates in certain of the U.N. technical aid projects, does it not?

Mr. PETTY. They are not a member of the Inter-American Bank.

Mr. PASSMAN. But I say they do. I am talking about a multilateral organization. Cuba actually, I believe, under the multilateral organization that has testified before this committee, would be eligible, because they are a member of the United Nations; are they not?

Mr. PETTY. There is a distinction between some of the specialized agencies, and the United Nations.

Mr. PASSMAN. Aren't they members of the United Nations?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. And I believe that we have made contributions to Cuba out of the UNDP account. Let's read it into the record:

This appears on page 250 of part 2 of last year's hearings. The purpose of this is to establish that we should have the right to examine on individual projects. I am not harassing you. I am trying to establish it so maybe this time we can get this legislation through.

Mr. LONG. So they are getting aid from the United States. Substantial aid?
Mr. PASSMAN. Indirectly.
Mr. DEPAMA. Yes, indirectly.
Mr. LONG. But they are getting it?
Mr. DEPALMA. They are getting it.

Going over to page 251:

Mr. PASSMAN. If it is handled on that basis and aid moves into an international organization and if Cuba remains a member of the organization which distributes these funds, then the same formula could apply in larger amounts if the operators of the international organization should determine, is that correct?
Mr. DEPALMA. Yes.

Mr. PASSMAN. I have read the record correctly.

Mr. PETTY. Yes.

Mr. PASSMAN. Now you know why we are trying to get it where we can examine in detail.

Mr. PETTY. Mr. DePalma was testifying on the international organizations of the United Nations which is a one country, one vote organization. I am testifying for the international institutions——

U.S. ELIGIBILITY TO BORROW FROM IDB

Mr. PASSMAN. Let's move to Latin America then. Every Latin American nation that makes contributions to the Bank, is likewise eligible to borrow from the organization, is it not?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. But not the United States.

Mr. PETTY. Technically the United States is eligible to borrow.

Mr. PASSMAN. The United States is?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. How much have we borrowed?

Mr. PETTY. We haven't. I said technically we are eligible to borrow. The purpose of the institution is to provide development assistance for the lesser developed countries. We have lesser developed areas in the United States but we also have greater capital resources and capital mechanisms to divert our own national resources to those points.

Mr. PASSMAN. Let's get back. You make these nice speeches and I like to hear you talk because you make good ones, but let's just go back to basic facts. Every contributor to the Inter-American Bank is eligible to borrow from the bank, is it not?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. You cite the point in the charter where the United States is eligible. Will you do that? I won't hassle with you. I just ask you to quote for the record.

(The information follows:)

Article III, section 4, "Agreement Establishing the Inter-American Development Bank" provides:

"Subject to the conditions stipulated in this article, the Bank may make or guarantee loans to any member, or any agency or political subdivision thereof, and to any enterprise in the territory of a member. * * * (Emphasis supplied).

LATIN AMERICAN CONTRIBUTIONS TO IDB

Mr. PASSMAN. How many Latin American countries are contributing?

Mr. PETTY. There are 22 other members and they all contribute their share of the capital of the bank.

Mr. PASSMAN. Their share is pretty small in many instances if you want to argue that point.

Mr. PETTY. It is 58 percent of the total, but some individual countries are less than 1 percent.

Mr. PASSMAN. That is what I thought, but they are eligible and most of them have obtained loans from the Inter-American Bank?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. What happens if a nation turns to the left and they are tending toward communism? At what point do we move in and say we think we should suspend disbursing any more money in this country until we know in what direction they are traveling? Do you have anything in there to protect you against such instances?

Mr. PETTY. You are asking a policy question. The Articles of the Bank—Article 3, Section 4—say that any member of the Bank is eligible to borrow. I think the question you are raising is whether, as a matter of policy, situations come—and you may be addressing yourself to the Chilean situation——

LOANS TO CHILE

Mr. PASSMAN. That is exactly what I am leading to. You people have approved loans to Chile without really knowing in what direction they are traveling. I think recently I read where substantial loans were approved for Chile, is that right?

Mr. PETTY. In the first week of January, Mr. Chairman, we informally notified the other members of the Bank that we were prepared to

agree to two loans to universities in Chile, but that we wanted to be satisfied on the question you raised, where Chile is going, before there are any additional loans. The two loans that were made had been underway for sometime with the previous government, had been approved over the summer, and were held up waiting for a confirmation of the new government as to their local contributions.

Mr. PASSMAN. But you turned around and disbursed the funds?

Mr. PETTY. Made the commitment, yes, sir.

Mr. PASSMAN. That is all we want to know.

Mr. PETTY. With the added point as I have said, that we now want to see where their economy is going, what their development plans are, and see whether they are consistent with the requirements of the Bank to make any additional loans.

Mr. PASSMAN. And if they are consistent with the Bank's policy, you would make loans. Again this committee would have no recourse. We wouldn't have the right to just call in and say, "All right, we are going to freeze these funds, because we don't approve of this."

The policy of the Bank would decide whether or not they would make additional loans to Chile?

Mr. PETTY. The executive board decides each individual loan, Mr. Chairman. As you know, we have a veto power over the Fund for Special Operations of the Inter-American Bank. We have 42 percent of the vote on the other window. I would like to discuss this Chilean problem if I may.

Mr. PASSMAN. We will get to that later. Let's get some facts in the record as to how much authority you have. I am just as sympathetic with people in Chile as I am anywhere else.

(Discussion off the record.)

Mr. PASSMAN. The trend is actually toward multilateral organizations distributing the aid program, is it not?

Mr. PETTY. Yes.

COMMITTEE EXAMINATION OF LOANS

Mr. PASSMAN. And the further in that direction they go the less this committee would have the right to examine. Isn't that true under present policy and law?

Mr. PETTY. Right now, if I understand the operation of the bilateral program——

Mr. PASSMAN. My apologies, but you didn't answer the question. Don't we lose the right?

Mr. PETTY. Individual committee examination of loans before they are committed, prior to approval, is not present in the multilateral institutions. Congressional review, full disclosure and such certainly is.

Mr. PASSMAN. That is all I want. The trend is toward multilateral organizations. When you finally get all of this money over into multilateral organizations, then it will just be a matter for this committee to either approve or disapprove. There is no use harassing you and other witnesses trying to get the facts, if they finally succeed in getting it over.

(Discussion off the record.)

Mr. PASSMAN. The committee will take a brief recess.

(Recess.)

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Mr. PASSMAN. The committee will come to order.

Possibly I appreciate you much more than you realize because you are a dedicated individual. You would not be before this committee if whoever appointed you did not feel that maybe you could outfox the committee, understand, and that your views would prevail and not the committee's views. So I have a lot of admiration for the stamina and the fight that you put up but we do, nevertheless, represent you people on that side of the table when we are trying to headoff some of these expenditures.

Would you mind my putting some statistics in the record that you should have?

Mr. PETTY. No, sir.

PUBLIC DEBT AND STATUTORY OBLIGATIONS

Mr. PASSMAN. Since we set up our first bookkeeping system in 1789 to record receipts and expenditures, we have collected $2,235 billion in taxes; but for every dollar we have collected in revenue, we have put the Nation in debt an aditional 71 cents alongside each of those dollars.

So we have a true public debt of $1,630 billion. Every living American, the little babies born last night or the old man who will reach 100 tonight, owes his Government $8,205. We have two public debts. You at Treasury look at the $397 billion borrowed money. That is the smallest part of it.

We have 115 statutes that says we are going to give this to you in subsequent years for some service previously rendered, but we have created no reserves.

Very briefly stated, the Civil War was concluded 106 years ago, yet we are mailing out checks to 669 widows and 449 children every month from that conflict; veterans' benefits are $8 billion a year. It will be 132 years before we meet our last commitment.

Take retired military personnel, $4 billion a year; interest on the public debt, $51 million a day. So when you put the grand total together, you will find that it is $1,630 billion, and it is just as much an obligation as the borrowed money. Do you not agree?

Mr. PETTY. Oh, yes.

Mr. PASSMAN. So there you are.

I think this great Secretary that Mr. Nixon appointed says that there should be some accounting, there should be a Treasury statement, as to the cost of these statutory obligations. We can get by with passing laws to give you something as long as you do not make it a part of that public debt.

So these are really some of the reasons why we fuss on this thing, to see if somewhere along the line we cannot just cut back and have a good close look at our own needs here in the States. If we have to start projects, at least we ought to get an even break. We should not start new projects abroad while we are closing down similar projects in America.

LACK OF KNOWLEDGE ON USE OF FUNDS

So as to pin this down with respect to multilateral organizations, it is true, in the most part, or I should say without exception, when

these appropriations, not the callable capital but the others, are finally made to the World Bank, International Development Association, Inter-American Development Bank, Asian Bank, that these funds are made available, either sent to them or they have a letter of credit where they can call them down.

Now when these funds go into these multilateral organizations, it becomes comingled with contributions made by other countries. No committee of the Congress knows when, where, or what kinds of projects are going to be approved out of those funds, do they?

Mr. PETTY. I think they know what the annual lending program is.

Mr. PASSMAN. I did not ask that question.

Will you give me an answer, please? I want to know whether or not there is any Member of Congress who knows when, where, or what project is being funded, until after the fact?

Mr. PETTY. No; not individual projects.

Mr. PASSMAN. Well, we have to deal, do you not agree, with individual projects, because that is what we go by.

Mr. PETTY. You mentioned earlier this afternoon that there are *x* number——

Mr. PASSMAN. Four thousand four hundred and eight projects in 99 nations and four territories of the world.

Now you gave us a good answer. I do not know why I should elaborate on it.

Now I am of the opinion that if we should have an amendment giving congressional committees the right of detailed examination on these projects, that there would be very few in which we would ever ask for detailed information.

SUPERVISION OF PROJECTS

I cannot believe that a multilateral project would be any better supervised than a bilateral project, because bilateral projects, in the main, are under the direct supervision of Dr. Hannah and his staff, are they not?

Mr. PETTY. I think there are two answers to your questions.

Mr. PASSMAN. Let's answer the first one. Are not the bilateral projects under Dr. Hannah and his staff?

Mr. PETTY. They are.

Mr. PASSMAN. All right, sir. Now I believe Dr. Hannah comes in and they justify these projects on an illustrative basis and state that they need a certain amount of money to continue these projects. We have the right then to examine in detail on these projects at the time he is before the committee, do we not?

Mr. PETTY. Yes, sir.

QUALITY OF PROJECTS

Mr. PASSMAN. All right.

Now we find in many, many instances, where there have been projects that they have obligated funds for, that have been dormant on the books for 4, 5, 6, 7 years, where there has been very little, if any disbursements. But they keep these projects alive.

Now, if those things happen in bilateral programs where we have the right to look at them, I cannot believe it would be any better in these multilateral organizations. Is that a fair assumption?

Mr. PETTY. I would speak to that point exactly.

We are talking earlier about, are there any projects——

Mr. PASSMAN. I do not want to go earlier. I wish you would give me an answer to this and then we will go back. I have the right to assume that your projects would not be any better than the bilateral projects where we have close supervision.

Mr. PETTY. I am not sure what your point is.

Mr. PASSMAN. The point is that we have an irrigation project in Pakistan, it is going to cost $11 million, they come in and get a slice each year to continue it. We have the right to say how much have you spent? What do you want this year? How much have you accomplished?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Now we have to get those answers. I want to say again in many instances we find projects that have been dormant, they have been funded, obligated, and dormant for 3, 4, 5, 6, years, you understand, still in the justification book.

Mr. PETTY. Congressman Roybal asked for some information.

Mr. PASSMAN. They carried those projects as an obligation, and we respect them, but I do not think that you people would have any better projects, would you? Is your accounting system any better than the bilateral system, where we have good supervision?

Mr. PETTY. The bilateral program has other features besides this right that you are identifying, Mr. Chairman.

Mr. PASSMAN. Would you give me an answer? Then I promise I will yield you 1 hour to elaborate on it. You have not answered my question.

I say this respectfully. I want to be kind. You and I have had this every year for years. I am going to restate it.

We have a bilateral program and we have a multilateral program, do we not?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Under the bilateral program we have a right to take this green book and go over page by page the projects that have been partially funded in the past and they ask for a new slice to continue the project.

We can go into detail. Under this system of the bilateral projects we can point out many, many projects that they have had on the books two, three, four, five years, where they have made no disbursements and they say "Yes; give us a little time. We are going to deobligate these projects." They know we are going to look at them. Many of them said, "Yes; we should have deobilgated many of these before."

The question is, do you people have a better system of supervising these projects? Do you have a better system of establishing a benefit-cost ratio than Dr. Hannah does with the bilateral projects?

Mr. PETTY. We certainly have as good and maybe better.

Mr. PASSMAN. As good and maybe better?

Mr. PETTY. It operates a little differently because of the multilateral character of the institution.

Mr. PASSMAN. You are funding the same type of projects. I am trying to establish whether you people in a multilateral division are superior to those who are administering the bilateral program.

Mr. PETTY. Very frequently they work together on different types of projects.

No; I do not think it is a matter of having one project better than the other.

Mr. PASSMAN. Do you think we should surrender our right of examination on bilateral programs? You cannot have your cake and eat it, too. It should be one way or the other.

The responsible congressional committee should have the right of detailed examination on any project that they want, either that or nothing. We might just as well surrender all of it and let you people run it.

Mr. PETTY. I am not recommending any change in the procedure on bilateral, Mr. Chairman, or on multilateral.

Mr. PASSMAN. You are having it, are you not—you are reducing the bilateral?

Mr. PETTY. The bilateral.

Mr. PASSMAN. And increasing the multilateral, are you not?

TREND TOWARD MULTILATERAL FINANCING

Mr. PETTY. Last year there was an actual increase in bilateral, generally the policy trend is to move away from the bilateral toward the multilateral.

Mr. PASSMAN. You say gradually. Did you look at these sheets I left here? When I looked at your request it didn't look like it was gradual.

Mr. PETTY. I am saying many of the items are bilateral on the sheet you have which shows $12.1 billion.

Mr. PASSMAN. I don't blame any witness for being evasive. That is a man's style and of course he has to proceed on that basis. May I ask you this question:

IDB TIME DEPOSITS

As we look at the financial statement of the Inter-American Bank, what is the amount of funds that the Bank has placed on time deposits in other institutions?

Mr. COSTANZO. The total amount of time deposits held by this Bank in other institutions is 407.5 million in dollars, and $219.9 million in other currencies.

Mr. PASSMAN. When we look at that, how much of that money is invested in United States bonds?

Mr. COSTANZO. In addition to those figures I gave——

Mr. PASSMAN. Let's stick with this one figure. Of the time deposits, U.S. dollars, $407,470,000, is that correct?

Mr. COSTANZO. Those are deposited.

Mr. PASSMAN. How much of that is deposited in the U.S. Treasury?

Mr. COSTANZO. None of that.

Mr. PASSMAN. Where is this money deposited?

Mr. COSTANZO. In commercial banks.

Mr. PASSMAN. In commercial banks in the United States?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. Is that money available to fund projects?

Mr. COSTANZO. It is available to meet disbursements on commitments.

Mr. PASSMAN. I say it is available to meet disbursements or new commitments, is that correct?

Mr. COSTANZO. Yes, sir; but the bulk is against existing commitments.

Mr. PASSMAN. You also have then non-member currencies of $219,929,000, do you not?

Mr. COSTANZO. That is true, sir.

Mr. PASSMAN. Then you have accrued interest of $23 million.

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. So that gives you the total of $667,501,476 in investments?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. And that money could be used to finance on-going projects or to start new projects, is that correct?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. Thank you very much. We are making a record that we must have.

What part of that, if any, is presently obligated for on-going projects?

Mr. COSTANZO. The uncommitted resources of the Bank at this time are $67 million.

Mr. PASSMAN. What do you mean uncommitted? Let's get down to what they are committed for. These funds are on time deposits.

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. When are you going to pull them in?

Mr. COSTANZO. When the loans already made need disbursements.

Mr. PASSMAN. When do you anticipate you will need to draw these funds?

Mr. COSTANZO. Over the next several years.

Mr. PASSMAN. The next several years?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. Isn't that something, to come in here and ask us to borrow money that we don't know whether we can ever pay back, to let you people build up a great big slush fund that you may be several years disbursing. May I ask you this question——

Mr. PETTY. This is why we have letters of credit, Mr. Chairman——

IDB TOTAL ASSETS

Mr. PASSMAN. Let met finish if I may, because I am representing 205 million American taxpayers. You are on the spending side and I am getting paid to represent these people. If I don't do the best I know how, I could be replaced, and I think someday you will appreciate the fact that we are trying, if not to help you, at least your children and grandchildren. What are the total assets of the Inter-American Bank?

Mr. COSTANZO. The total assets on the balance sheet in the ordinary capital are $1,461 million.

Mr. PASSMAN. You referred to that as liquid assets.

Mr. COSTANZO. No, sir, that is total assets.

Mr. PASSMAN. But the $667,501,476, is in what you call the investment account. This is money you said would be available to finance projects over a period of several years.

Mr. COSTANZO. Yes, sir, largely on commitments already made.

Mr. PASSMAN. Thank you so very much.

Any additional funds that we give you will be put in either this account or some other account for immediate disbursement, would it not?

Mr. COSTANZO. No. sir.

Mr. PASSMAN. What would you do with it?

Mr. COSTANZO. Not in its entirety. The paid in capital would be in the form of letters of credit. Therefore it would not be available for investments or to go in this account, but only as loans are made from our subscription and disbursement needs accrue would the Bank draw on those funds to disburse for projects.

Mr. PASSMAN. Under a tight operation, you could disburse out of this account until you reach a reasonable reserve, could you not? You could fund projects out of this reserve which you say would be disbursed over a period of several years. You could use this reserve to finance projects, could you not?

Mr. COSTANZO. Not to make new commitments, however. To finance existing commitments.

Mr. PASSMAN. You said part of it was for existing projects and part of it was to finance new projects.

Mr. COSTANZO. Part of it.

Mr. PASSMAN. I am talking about the second part.

Mr. COSTANZO. Very small.

Mr. PASSMAN. What ever it may be, it could be used?

Mr. COSTANZO. Yes, sir, very small.

Mr. PASSMAN. To finance new projects.

Mr. COSTANZO. A very small part; yes, sir.

Mr. PASSMAN. It would appear to me that you can take figures and statistics to prove or disprove anything, but you can't erase from the record the fact that you people have $667 million on time deposit. In addition to that, you do have a line of credit, do you not, with commercial banks, from which you could borrow money?

Mr. COSTANZO. This reflects the callable capital.

BORROWING OF FUNDS

Mr. PASSMAN. Could you go out to local banks and borrow this money?

Mr. COSTANZO. As of the moment we can to the extent of $98 million.

Mr. PASSMAN. Have you exercised that right under the law yet?

Mr. COSTANZO. Yes, sir; we have, and there is unused authority at the moment of $98 million. The Bank has borrowed $915 million.

Mr. PASSMAN. Why didn't you disburse the extra funds in this account?

Mr. COSTANZO. This account actually reflects, for the large part, the proceeds of borrowings.

Mr. PASSMAN. You have already made the record and you can't erase it, that some of it was available for new projects. To that extent it could be used, couldn't it, for new projects?

Mr. COSTANZO. To that small extent that I indicated; yes, sir.

Mr. SHRIVER. Would you yield?

Mr. PASSMAN. I yield to the gentleman.

Mr. SHRIVER. I would like to know why you couldn't use the $667 million, actually use it for making loans?

Mr. COSTANZO. Mr. Shriver, all of that except $50 million is held against loan commitments already made, and to meet disbursements on those loan commitments as they arise. The Bank has followed, from the beginning, a policy of not making loan commitments except against member subscriptions and funds actually raised in the form of cash in the private capital market.

Mr. PASSMAN. Do you not have substantial interest coming in annually on these investments?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. That interest could be used, could it not, to start new projects?

Mr. COSTANZO. That interest has led to the accumulation of a substantial reserve, part of which is reflected in these investments.

Mr. PASSMAN. That is a good statement but you haven't answered my questions.

Mr. PETTY. It is, Mr. Chairman.

Mr. PASSMAN. Let me ask it and get a direct answer.

You have about $50 million a year coming in as accrued interest, do you not, on your investments?

Mr. COSTANZO. Yes, sir.

STATUTORY RESERVES

Mr. PASSMAN. That money could be used, could it not, to start new projects?

Mr. COSTANZO. There are some statutory reserve requirements which the Bank must maintain.

Mr. PASSMAN. How much and where do I find those in your financial statement?

Mr. COSTANZO. There is a flat 1-percent commission charged on all loans to establish a special reserve. That appears in the financial statements in 1970. Income from those commissions was $5,970,000.

Mr. PASSMAN. Are you privileged to borrow that money out of reserve? It is on hand, isn't it?

Mr. COSTANZO. No, sir.

Mr. PASSMAN. It is a dormant account. Are you getting interest on it?

Mr. COSTANZO. That is a dormant account.

Mr. PASSMAN. Can you use the interest that you get on that?

Mr. COSTANZO. Again the interest on that goes into the general reserve of the Bank, which could be used for operations.

LEGAL COMMITMENT

Mr. PASSMAN. Let me ask you this question. If the Congress, in its wisdom, should decide that they are not going to give you a dollar, we would not be violating any legal commitment, would we?

Mr. COSTANZO. No, sir.

Mr. PASSMAN. We have got an answer. That is all we want. I knew it and I am glad you vertified that. If the Congress, in its wisdom, should

establish that since we are having to close down projects in America and put money in the deep freeze for badly needed projects and we cannot obtain sufficient money out of the economy to do what we think is the right thing in America, this program could be slowed down temporarily, couldn't it?

Mr. COSTANZO. It would be slowed down.

Mr. PASSMAN. But it could be slowed down and we would not violate any legal commitment, would we?

Mr. PETTY. Mr. Chairman, I think we have to say——

Mr. PASSMAN. Wait a minute, I want an answer. Would we violate any legal commitment. He said "No." Are you saying the same thing?

Mr. PETTY. I am saying the U.S. Government has a binding obligation on the basis of authorizing legislation. Congress has authorized us to vote for the resolutions providing for these subscriptions.

Mr. PASSMAN. Subject to a subsequent appropriation, isn't that correct?

Mr. PETTY. Absolutely; yes, sir.

Mr. PASSMAN. Then we are not violating any legal commitment if we don't appropriate it, are we? Is that right?

Mr. PETTY. Under these arrangements Congress can refuse to appropriate the funds.

Mr. PASSMAN. I wasn't saying anything about refuse. I asked the question, and I am entitled to an answer for the record. If the Congress in its wisdom should decide not to appropriate the money, then we have not violated any legal commitment, have we?

Mr. PETTY. The Congress has authorized——

AUTHORIZATION "SUBJECT TO APPROPRIATION"

Mr. PASSMAN. I didn't say anything about authorizing. You just said in the affirmative that it was dependant upon a subsequent appropriation by the Congress. These nations know that these agreements cannot be carried out without an appropriation, do they not?

Mr. PETTY. Our statement makes very clear that they are subject to appropriation.

Mr. PASSMAN. Subject to appropriation; which means that there is no legal obligation violated if the Congress, in its wisdom, should not appropriate the money; is that correct?

Mr. PETTY. But the Congress also authorized——

Mr. PASSMAN. I know what the Congress authorized. I am asking if I made a correct statement? I am entitled to know whether or not we are violating a legal commitment, if we do not appropriate the money after you have once told these people that we are entering into this agreement subsequent to an appropriation by the Congress. You said that is correct. In that case, if the Congress should decide not to appropriate the money, we are not violating any legal commitment, are we?

CONTRACTUAL COMMITMENT

Mr. PETTY. We would be violating a contractual commitment authorized by Congress.

Mr. PASSMAN. I didn't say anything about that. I said a legal commitment. You people go out and contract for a lot of things. Gentle-

men, can I rest my case on what Mr. Costanzo said previously? What is your position?

Mr. COSTANZO. I am not a legal expert.

Mr. PASSMAN. You are not going to keep dodging these questions. We will adjourn the committee. We are just going to get an answer, because if there is a legal commitment, not one of these bureaucratic agreements but a legal commitment for us to appropriate the money, then why are you before the committee? I will put it that way.

Mr. PETTY. Mr. Chairman, if I may I would like to read a paragraph at this point.

Mr. PASSMAN. I know what you want to do, but I am not agreeable to it. I want an answer whether or not there is a legal commitment or whether I can go by what you said previously, that you tell these people this is based upon a subsequent appropriation by the Congress. If you enter into these agreements on that basis, then the Congress in its wisdom decides we just don't have the money, we haven't violated a legal commitment as such, have we?

Mr. PETTY. I think when the United States signs these contractual commitments and we make a notation, everyone knows our legislative procedure in the United States and they know we have to appropriate for the authority for the Secretary to pay the money out——

Mr. PASSMAN. And they know then you are not obligating for an appropriation, you are entering into these agreements in the hope that the Congress will subsequently appropriate; is that true?

Mr. PETTY. But they also know that Congress, both Houses, a majority of each House, signed into law by the President, authorized the Secretary of the Treasury to agree to subscribe to ordinary capital contributions.

Mr. PASSMAN. Are you familiar with the public works program in America that we have going in 50 States—rivers and harbors, flood control, reclamation?

Mr. PETTY. My understanding is this is not very dissimilar from the Highway Act or Urban Renewal Act.

Mr. PASSMAN. This has nothing to do with that. I asked you a question, and I think you want to help this committee. We have what is known as a Public Works Subcommittee on Appropriations. We enter into an authorization. It will cost so much to build a project, and we have literally thousands of them going in 50 States. They get an authorization, but that authorization doesn't necessarily bind the Congress to subsequently appropriate the money, does it?

Mr. PETTY. No, they are two separate acts.

Mr. PASSMAN. Certainly. You have the authorization fixing the ceiling, and that is based upon a subsequent appropriation, is it not?

Mr. PETTY. It is indeed.

Mr. PASSMAN. Isn't that the same thing when you enter into these agreements, you fix a ceiling, but it is based upon a subsequent appropriation?

AGREEMENT WITH OTHER COUNTRIES

Mr. PETTY. There is an added element that is not present in the example you have cited.

Mr. PASSMAN. What is that added element?

Mr. PETTY. An agreement in this case with 22 other countries, Mr. Chairman.

Mr. PASSMAN. We agree with 50 States. We agree with the Governors of the States. A lot of it is on a matching fund basis. I know of many where the States say, "We have our money. Can't you please get the Government to put up their part." You know of projects like that, don't you? We have just literally thousands of them, where we are waiting for the Government to put up the matching funds with the States. Now have I put it in proper context?

Mr. PETTY. I think you have; yes, sir.

Mr. PASSMAN. Good. Why didn't we get to this earlier so we wouldn't have to argue about this thing. You know and I know that is true. You people are trying to hedge. If you had insisted on that being true then we would have adjourned the committee. Why hold hearings if this committee has no right to examine your request and make reductions, if we should deem it to be proper. Thank you very much. You finally gave it to us as we wanted it. For that I am very grateful and we will proceed.

(Discussion off the record.)

Mr. PASSMAN. It is all right to be repetitious occasionally. You cannot expend money on any public works projects in this country until you first get a legal authorization fixing the ceilings. Without exception you must have a cost/benefit ratio that is favorable, that the benefits exceed the costs, and it takes an average of 7 years to get authorization through the Congress. Then about 3 years from that time, we get an appropriation that is about 1/7 of the cost. Then we get headlines back home, they are so glad to acquire funds in order to get one of these projects going. Some of them have been going for 16 or 17 years, and they are glad to get a little piece each year to keep these projects alive.

Then you have other projects where the States enter into a very firm agreement on a matching basis formula but the Federal Government denies it, then the State just has to wait until the Federal Government finally get around to putting up the matching funds. I know that you people can renegotiate these formulas. These people can't say we are either going to get it all or we don't want you to contribute.

AUDIT MECHANISM

Section 14 of the Inter-American Development Bank Act, as amended, provided for the establishment of an audit program and required the General Accounting Office to review these audit reports and report to the Congress any suggestions for improvement. To what extent has this been implemented?

Mr. COSTANZO. The group called for by that section of the legislation was established as a multilateral group. It has begun work. It has issued reports which have been made available to the General Accounting Office. It is my understanding that they will be submitting a report to the Congress shortly.

Mr. PETTY. In the near future, a month or two I think.

LOANS PROVIDED TO COUNTRIES SEIZING U.S. PROPERTY

Mr. PASSMAN. Has the Inter-American Development Bank provided loans, considered loans, or approved loans to the following countries since the occurrence of the stated event? Chile, since the establishment of the Marxist government? Ecuador, since the seizing of the fishing vessel? Bolivia, since the nationalization of a U.S. metal processing company?

Mr. COSTANZO. The Inter-American Development Bank has made no loans to Ecuador since that event.

Mr. PASSMAN. Start with Chile. That was the first I named.

Mr. COSTANZO. I am sorry, Mr. Chairman. It has made two loans to Chile.

Mr. PASSMAN. How about Ecuador?

Mr. COSTANZO. No loans to Ecuador.

Mr. PASSMAN. How about Bolivia?

Mr. COSTANZO. No loans to Bolivia.

Mr. PASSMAN. Do you have applications pending?

Mr. COSTANZO. Yes, sir. In the case of Ecuador and Bolivia.

Mr. PASSMAN. Do you carry those in an obligated status?

Mr. COSTANZO. No, sir. These are simply applications.

Mr. PASSMAN. Would you place in the record at this point, the amount of loans made to Chile, Ecuador, and Bolivia, and the present status of those loans.

(Detailed tables were supplied to the committee. Information for the record follows:)

Loans to Chile, Ecuador, and Bolivia

The following is a summary of loans made to Chile, Ecuador, and Bolivia, and their present status as of February 28, 1971 (amounts in millions of U.S. dollar equivalents):

	Number of Loans	Net Amount Approved	Status		
			Disbursed	Repaid	Outstanding
1. Loans to Chile					
Ordinary Capital	18	102.3	86.6	27.5	59.1
Fund for Special Operations	25	163.2	75.1	5.4	69.7
Social Progress Trust Fund	14	34.4	34.2	5.4	28.8
Total	57	300.1	195.9	38.3	157.6
2. Loans to Ecuador					
Ordinary Capital	4	13.8	9.3	1.3	8.0
Fund for Special Operations	13	64.4	16.0	3.5	12.4
Social Progress Trust Fund	9	27.4	27.4	3.2	24.2
Total	26	105.6	52.7	8.0	44.6
3. Loans to Bolivia					
Ordinary Capital	--	--	--	--	--
Fund for Special Operations	21	82.0	42.0	14.3	27.7
Social Progress Trust Fund	6	14.5	14.5	2.2	12.4
	27	96.5	56.5	16.5	40.1

Detailed information on each loan is presented in the following tables extracted from the Bank's monthly statement on the status of loans.

Mr. PETTY. Could I make a point on that, Mr. Chairman?

The question of Chile and the problems that we are having with the Government, and the relationship of our bilateral policy with the conduct of our affairs through the Inter-American Bank is the toughest type of question we have. I talked earlier this afternoon about a multilateral institution being a different way for conducting development assistance business than bilateral. It has a lot of benefits and it has some costs involved in it, as everything in life seems to have this trade-off.

What happens when there is the boat situation with Ecuador or questions of confiscation of property of U.S. persons in Chile. We have a series of possible responses, and this is all a major aspect of foreign policy and foreign economic policies. Here we can pursue a series of bilateral avenues, everything from all the options we know on the tuna boats—from the Navy being available to everything else—or the multilateral institution avenue.

The question that we ask ourselves, because we have our minds on these same events that you have identified, is, what is the best way for the United States to respond. How do we best pursue our national interest? One of the different levels through which you can respond can be the Inter-American Development Bank—take it right into the board room and fight it out there. Is that really where you want to fight out this type of issue, or do we use our bilateral avenues to pursue it? Generally, on balance, we think that the multilateral forum is not the first place to go to resolve bilateral differences. Where this leads you in the future it is hard to say.

(Discussion off the record.)

PURCHASE OF SOPHISTICATED MILITARY EQUIPMENT AUTHORIZATION

Mr. PASSMAN. You are familiar with the basic authorization act handled by the Foreign Affairs Committee and the Foreign Relations Committee which has a provision, that certain developing countries' aid, certainly in Latin America, would be cut off if they spent their funds on sophisticated military equipment. The only exception would be if the President should make a determination within the limitation otherwise. You are familiar with that, aren't you?

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Do you have a similar clause in the Bank's legislation?

Mr. PETTY. The Symington amendment, section 16(c).

Mr. PASSMAN. I am just asking the question.

Mr. PETTY. The answer is "Yes," sir.

Mr. PASSMAN. What happens then if these nations do spend their money for sophisticated military equipment? Then they can replenish their tills with a loan out of the Inter-American Bank. You can stretch that Presidential determination to put an umbrella over you people, is that right?

Mr. PETTY. Money is fungible and it is hard to trace dollars.

Mr. PASSMAN. Let's get a concise answer. Are you getting under that umbrella when a Presidential determination is made allowing a country to make such purchases?

Mr. COSTANZO. I assume what you mean is, if the President makes that determination, what action would we take?

Mr. PASSMAN. Would that also give you people the right to go ahead and disburse loans?

Mr. COSTANZO. Then we would use our voting power in the Bank in accordance with the President's determination.

Mr. PASSMAN. It is pretty nice to have a semirelated bilateral program when you need it, isn't it? You are separate and apart, unless you have something that serves your purpose. Then you come in under that umbrella. If a country takes its earnings and spends on military equipment from the United Kingdom, West Germany, Italy or France, then, of course, they are eligible for a loan out of your bank to replenish what they take out of their till for this military equipment, is that correct?

Mr. PETTY. Mr. Chairman, this is a question that the House Banking and Currency Committee has been particularly concerned about too. In the amendment to legislation last year, they have asked for increased reporting on just this issue of the percentage of budgetary resources countries spend on military goods. There are a lot of ways to attack the problem. That is another way of trying to get them to concentrate increasingly upon development assistance.

Mr. PASSMAN. You are one nice fellow. If I would ever get a direct answer from you, I would send you the prettiest tie you ever owned. Do you like red? You are being very evasive.

There is always a way around anything we do in Congress. I do not care what it is, you can have a Passman-Shriver-Conte amendment and pass it, but there is always a way around it.

This is a full-time job with you people. We have only a few hours. Do you want to say something?

Mr. COSTANZO. Yes, Mr. Chairman, if I could clarify.

When I said that the voting power of the United States would be used in accordance with the President's determination, the practical effect of that would be that in the Fund for Special Operation, no loans could be approved because we have a veto right in that fund.

Mr. PASSMAN. You have a veto right, but do you exercise it?

Mr. COSTANZO. We would in that case, by statute.

Mr. PASSMAN. We know the Latin Americans last year, purchased some sophisticated equipment from other countries.

Can you tell me what nations in Latin America you did not disburse funds to last year?

Mr. COSTANZO. Cuba not, certainly.

Mr. PASSMAN. Cuba is not in here at all. You had better come up with a better defense than that. Do you know of any other countries in which you did not disburse funds?

Mr. PETTY. No. I am not sure of the legislation.

Mr. PASSMAN. I am not talking about legislation. My question is, do you know of any countries in Latin America to which you did not disburse some funds out of the Inter-American Development Bank during calendar year 1970?

Mr. PETTY. I think we——

Mr. PASSMAN. The answer is no, is it not? Why not give us a direct answer occasionally.

Mr. PETTY. No, I think——

Mr. PASSMAN. You are on the defensive more than you realize you are.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. May I ask this question?

I have these other questions I am not going to ask, because I will wind up with about three answers.

Mr. PETTY. We should try.

PROTECT THE U.S. TAXPAYER

Mr. PASSMAN. It is too much effort to get three direct answers, and I would have to prod you like the devil to get those.

Let me put it this way, and I am quite serious: Our first obligation is to our own people in America, is it not?

Mr. PETTY. I share that entirely.

Mr. PASSMAN. We have to borrow the money to carry on a lot of these projects, is that not true?

Mr. PETTY. We do indeed.

Mr. PASSMAN. And we are actually having to put a lot of them in deep freeze, are we not?

Mr. PETTY. Our domestic programs?

Mr. PASSMAN. I am talking about almost any project you can think of.

President Johnson impounded funds, did he not?

Mr. PETTY. I believe he did.

Mr. PASSMAN. I believe President Nixon is doing the same thing, is that not true?

Mr. PETTY. I believe so.

Mr. PASSMAN. I am so very grateful for the way you answered those questions. We are going to take that into account in marking up the bill. We may not refer to anything other than those last four answers. I trust you have a pleasant evening.

Mr. ROYBAL. When the bill is marked up, we should take into consideration the fact that there are other expenditures that we make in the United States, that they fall into this same category, and that the budget deficit is not the result of the work that you gentlemen are doing in the Inter-American Development Bank alone, but only a small fraction of it.

If the position that the chairman takes applies to all these other expenditures, then I would agree with his position. If it just picks on the Inter-American Development Bank, I would not agree, because even though, Mr. Chairman, I am quite dissastisfied with the past performance of the Bank, at least as far as I know it, we see a light of hope now in that Ortiz-Mena is the president. This man is a most capable individual and I think that it will establish for record as we go along, that he has a tremendous background, that he is interested in reform, and I feel confident that he is going to put them into effect.

The ultimate result will be that we are going to have some real good management insofar as this bank is concerned. Mr. Chairman, we realize that there is going to be a deficit. We also realize that we are going to have to borrow some money to fund some of these programs, and that the money that we have to borrow can definitely not be attributed to the operations of this Bank alone.

Now if we apply a certain percentagewise to every program that we fund and say that we are going to reduce all programs accordingly,

without picking on one particular program, then I would say that we are doing the proper thing. I am, definitely in favor of reducing our deficit, but not at the expense of one particular program.

Mr. PASSMAN. Let me say for the record, it has been my privilege to chair this committee for 17 years. As you know, these multilateral organizations have always been the sacred cows. We have never cut the Inter-American Bank a dime that you know of, have we?

Mr. PETTY. I know we have postponed and I know we have cut down——

Mr. PASSMAN. We have never reduced your request a dime, that you know of, have we?

Mr. PETTY. I think that is correct.

Mr. PASSMAN. I do not think we ever reduced the Asian Development Bank a dime, have we?

Mr. PETTY. Not in the appropriation.

Mr. PASSMAN. You do not know of this committee ever reducing the International Development Association a dime, do you?

Mr. PETTY. I hope you are indicating a precedent.

Mr. PASSMAN. I am not indicating anything. I want my friend to know what the facts are.

We have always looked upon the international banks as sacred cows.

Do you see what I mean? I am not picking on the Inter-American Bank only. I am only making this statement, it is the aggregate that worries us.

Mr. ROYBAL. Right.

Mr. PASSMAN. This budget calls for $13.5 billion for foreign aid. We know that the trend is toward eliminating bilateral aid and putting it into multilateral, therefore taking it out from under the supervision of this committee.

Now we are trying to make a record that these so-called sacred cows are going to have to come under very close examination.

We are going to close for today. I appreciate the gentleman's views, but we do know this: that your own family comes ahead of your neighbor's, is that not right?

Your obligation is first to your own family.

Mr. PETTY. My daddy said if you do not look out for yourself, no one else will.

Mr. PASSMAN. Now we will recess until tomorrow.

THURSDAY, APRIL 1, 1971.

DETERMINATION OF PRINCIPAL WITNESS

Mr. PASSMAN. The committee will be in order.

I trust that I shall always maintain a policy that I have had from childhood, and that is to try to rectify errors, ask for forgiveness, and apologize where apologies are due.

The apology goes to the Honorable Henry J. Costanzo, who is the U.S. Executive Director of the Inter-American Development Bank, is that correct?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. I should have directed all my questions to you yesterday because you are the Director and you are the one that looks

over these loan applications with the other Directors, is that correct?

Mr. COSTANZO. Yes, sir, I am the Director. I am not sure who the principal witness is.

Mr. PASSMAN. Let me make the decision. Does this gentleman do all the talking and you just sit there and listen, or do you participate?

Mr. COSTANZO. No, sir.

Mr. PASSMAN. Then my apology to you for letting you listen and letting Mr. Petty answer all the questions.

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. It would be like me going to the White House and talking to Henry Kissinger all afternoon and then find out he is not the President.

Mr. LONG. You might still be right.

Mr. PASSMAN. That is not so. I am glad that this man is the Director. You are the Director and you are the man we must look to to scrutinize these applications for loans to see whether or not the loans are worthy of approval or disapproval, is that right?

Mr. COSTANZO. That is right.

Mr. PASSMAN. Thank you very much, let us not elaborate.

My apologies.

Today I will direct my questions to you and let Mr. Petty listen. He knows I mean that about half way humorously.

(Discussion off the record.)

COMPARISON OF THIS YEAR'S AND LAST YEAR'S REQUEST

Mr. PASSMAN. I know that there can be an awful lot of elaboration on the question I am going to ask, and if you want to elaborate put it in the record.

I just want something to compare last year to this year. Last year I believe in the budget at this time of the year, the total amount was requested in the way of a supplemental in the amount of $205,880,000, is that correct?

Mr. COSTANZO. $205,880,000, yes, sir.

Mr. PASSMAN. $205,880,000. If we want to contrast that figure with the total amount we pulled out of the budget so far this year, we find this year is $986,760,000 for the supplemental, the regular request, and proposed legislation, is that correct?

Mr. COSTANZO. For this Bank it is only $486 million.

Mr. PASSMAN. What is the other $500 million?

Mr. COSTANZO. I am not sure what you are referring to, Mr. Chairman.

Mr. PASSMAN. You have $50 million for fiscal year 1972. You have $450 million proposed for fiscal year 1972. You have a supplemental request for $486,760,000.

Mr. COSTANZO. That is correct.

Mr. PASSMAN. So that adds up to $986,760,000 compared to $205,880,000 that we picked out of the budget this time last year, is that correct?

Mr. COSTANZO. The total for this year represents both the supplemental——

Mr. PASSMAN. I know that perfectly. The total was $205,880,000. Isn't that what was in the budget last year?

Mr. COSTANZO. That is right; yes, sir.

Mr. PASSMAN. Thank you very much. I thought it would be that way. This year's total, and we are talking about the aggregate, is about four-and-a-half times that of last year; is that right?

Mr. COSTANZO. For 2 fiscal years; yes, sir.

Mr. PASSMAN. Thank you very much.

We will take a brief recess, and we will be back after we answer the bells.

(Recess.)

LOANS MADE TO MEMBER COUNTRIES

Mr. PASSMAN. The committee will be in order.

Mr. Director, would you place in the record at this point the total showing the amount of loans each member country has received from the three windows of the Bank?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. To be more specific, Ordinary Capital, Fund For Special Operations, and Social Progress Trust Fund.

(The information follows:)

Summary Statement of Approved Loans, less Cancellations by Sources of Funds
February [illegible], 1971
(Expressed in thousands of U.S. dollars or U.S. dollar equivalent)

Country	Ordinary Capital: Number of loans	Ordinary Capital: U.S. dollars	Ordinary Capital: Latin American currencies	Ordinary Capital: Non-member currencies	Ordinary Capital: Total amount	Fund for Special Operations: Number of loans	Fund for Special Operations: U.S. dollars	Fund for Special Operations: Latin American currencies	Fund for Special Operations: Total amount	Bank Resources Total: Number of loans	Bank Resources Total: Total amount	Social Progress Trust Fund: Number of loans	Social Progress Trust Fund: Total amount	Other Funds: Number of loans	Other Funds: Total amount	Grand Total: Number of loans	Grand Total: Total amount
Argentina	33	$173,002	$ 33,075	$ 76,643	$ 282,720	24	$ 162,289	$100,419	$ 262,708	57	$ 545,428	4	$ 43,500	1	$ 749	62	$ 589,677
Bolivia						20	72,699	9,311	82,010	20	82,010	6	14,548	2	5,532	28	102,090
Brazil	37	291,704	30,667	75,612	397,983	28	276,256	127,285	403,541	65	801,524	10	61,510	3	15,066	78	878,100
Chile	17	68,847 1/	9,186	24,240	102,273	25	125,883	37,352	163,235	42	265,508	14	34,427	3	9,413	59	309,348
Colombia	22	77,691	10,595	62,624	150,910	23	131,884	49,297	181,181	45	332,091	9	49,008	3	18,644	57	399,743
Costa Rica	6	13,001	1,141	1,129	15,271	11	27,950	6,589	34,539	17	49,810	6	11,699			23	61,509
Dominican Republic	1	3,403	1,500	1,097	6,000	8	38,573	5,922	44,495	9	50,495	4	8,408			13	58,903
Ecuador	4	11,193	818	1,825	13,836	13	58,186	6,176	64,362	17	78,198	9	27,449	2	4,028	28	109,675
El Salvador	4	5,605	1,000	353	6,958	6	11,374	4,109	15,483	10	22,441	6	21,952	2	5,188	18	49,581
Guatemala	5	9,842	1,450		11,292	10	46,279	7,525	53,804	15	65,096	4	14,320			19	79,416
Haiti						4	11,187	450	11,637	4	11,637					4	11,637
Honduras	2	460			460	10	43,292	3,650	46,942	12	47,402	5	7,603			17	55,005
Jamaica	1	1,200		800	2,000	3	13,000	1,900	14,900	4	16,900					4	16,900
Mexico	27	164,530	27,017	76,942	268,489	19	151,580	76,451	228,031	46	496,520	8	34,927	1	535	55	531,982
Nicaragua	7	14,803	928	3,794	19,525	10	34,780	8,070	42,850	17	62,375	4	13,035			21	75,410
Panama	1	1,000	500		1,500	12	30,206	3,967	34,173	13	35,673	3	12,862			16	48,535
Paraguay	4	4,796	820	434	6,050	15	72,406	11,157	83,563	19	89,613	3	7,800	1	792	23	98,205
Peru	13	31,789	3,038	8,847	43,674	12	103,830	30,225	134,055	25	177,729	10	45,108	2	1,394	37	224,231
Trinidad and Tobago						5	7,319	1,581	8,900	5	8,900					5	8,900
Uruguay	10	36,150	3,789	7,949	47,888	11	33,077	7,170	40,247	21	88,135	2	10,350	1	1,200	24	99,685
Venezuela	12	69,231	19,364	16,344	104,939	9	42,145	49,055	91,200	21	196,139	8	72,861			29	269,000
C.A.B. for Economic Integration	1	10,000			10,000	5	43,000	5,704	48,704	6	58,704	1	2,902	1	3,742	8	65,348
Regional (ADELA)	1	3,587		4,867	8,454	1	2,000		2,000	2	10,454					2	10,454
Total	208	$991,834	$144,888	$363,500 2/	$1,500,222	284	$1,539,195	$553,365	$2,092,560	492	$3,592,782	116	$494,269	22	$66,283 3/	630	$4,153,334
During 1971 (Included in Grand Total)	2	$ 7,995	$ 3,000	$ 3,200	$ 14,195	5	$ 45,510	$ 26,090	$ 71,600	7	$ 85,795	-	-	-	-	7	$ 85,795

1/ Includes $232 equivalent of Swiss francs and $50 equivalent of Belgian francs.
2/ Comprises equivalents of Austrian schillings $11,200, Belgian francs $6,000, British pounds $13,380, Deutsche marks $167,972, Italian lire $85,668, French francs $2,400, Japanese yen $21,3[illegible] Netherland guilders $8,250, Swiss francs $37,664 and Swedish kronor $9,660.
3/ Equivalent to Canadian dollars 52,351 and British pounds 3,021 at the rate of 1.01 and 0,417, respectively, per U.S. dollar. Swedish Fund $5,000, Populorum Progressio Fund $1,000 and Argentine Fund $1,200.
4/ Comprises $1,875 from revolving lines of credit.

MEMBER COUNTRY SUBSCRIPTIONS

Mr. PASSMAN. Would you also provide a table showing what amount each member country has contributed to the various windows of the Bank, indicate what percentage each amount represents of the total amount and also include another column showing the amount that is paid in in dollars and the amount paid in in local currency.

(The information follows:)

INTER-AMERICAN DEVELOPMENT BANK - ORDINARY CAPITAL
STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK
DECEMBER 31, 1970
Expressed in United States Dollars

Member	Percent of total	Total subscribed capital	Paid-in portion		Callable portion of subscribed capital
			United States dollars	Local currency	
Argentina	12.52	$ 345,820,000	$ 25,785,000	$ 25,785,000	$ 294,250,000
Barbados	.15	4,140,000	1,035,000	1,035,000	2,070,000
Bolivia	1.01	27,760,000	2,070,000	2,070,000	23,620,000
Brazil	12.52	345,820,000	25,785,000	25,785,000	294,250,000
Chile	3.44	94,960,000	7,080,000	7,080,000	80,800,000
Colombia	3.43	94,880,000	7,075,000	7,075,000	80,730,000
Costa Rica	.50	13,880,000	1,035,000	1,035,000	11,810,000
Dominican Republic	.67	18,520,000	1,380,000	1,380,000	15,760,000
Ecuador	.67	18,520,000	1,380,000	1,380,000	15,760,000
El Salvador	.50	13,880,000	1,035,000	1,035,000	11,810,000
Guatemala	.67	18,520,000	1,380,000	1,380,000	15,760,000
Haiti	.50	13,880,000	1,035,000	1,035,000	11,810,000
Honduras	.50	13,880,000	1,035,000	1,035,000	11,810,000
Jamaica	.67	18,520,000	1,380,000	1,380,000	15,760,000
Mexico	8.05	222,300,000	16,575,000	16,575,000	189,150,000
Nicaragua	.50	13,880,000	1,035,000	1,035,000	11,810,000
Panama	.50	13,880,000	1,035,000	1,035,000	11,810,000
Paraguay	.50	13,880,000	1,035,000	1,035,000	11,810,000
Peru	1.68	46,340,000	3,455,000	3,455,000	39,430,000
Trinidad and Tobago	.50	13,880,000	1,035,000	1,035,000	11,810,000
United States	42.47	1,173,520,000	150,000,000		1,023,520,000
Uruguay	1.34	37,080,000	2,765,000	2,765,000	31,550,000
Venezuela	6.71	185,280,000	13,815,000	13,815,000	157,650,000
Total	100.00	$2,763,020,000	$269,240,000	$119,240,000	$ 2,374,540,000

INTER-AMERICAN DEVELOPMENT BANK - FUND FOR SPECIAL OPERATIONS
STATEMENT OF CONTRIBUTION QUOTAS
DECEMBER 31, 1970
Expressed in United States Dollars

Member	Percent of total	Total subscribed quota	Contributions	
			United States dollars	Local currency
Argentina	4.94	$ 115,086,000	$ 7,735,500	$ 107,350,500
Barbados	.02	414,000	207,000	207,000
Bolivia	.40	9,240,000	621,000	8,619,000
Brazil	4.94	115,086,000	7,735,500	107,350,500
Chile	1.36	31,599,000	2,124,000	29,475,000
Colombia	1.36	31,578,000	2,122,500	29,455,500
Costa Rica	.20	4,620,000	310,500	4,309,500
Dominican Republic	.26	6,159,000	414,000	5,745,000
Ecuador	.26	6,159,000	414,000	5,745,000
El Salvador	.20	4,620,000	310,500	4,309,500
Guatemala	.26	6,159,000	414,000	5,745,000
Haiti	.20	4,620,000	310,500	4,309,500
Honduras	.20	4,620,000	310,500	4,309,500
Jamaica	.26	6,159,000	414,000	5,745,000
Mexico	3.18	73,989,000	4,972,500	69,016,500
Nicaragua	.20	4,620,000	310,500	4,309,500
Panama	.20	4,620,000	310,500	4,309,500
Paraguay	.20	4,620,000	310,500	4,309,500
Peru	.66	15,414,000	1,036,500	14,377,500
Trinidad and Tobago	.20	4,620,000	310,500	4,309,500
United States	77.32	1,800,000,000	1,800,000,000	
Uruguay	.53	12,342,000	829,500	11,512,500
Venezuela	2.65	61,665,000	4,144,500	57,520,500
Total	100.00	$2,328,009,000	$1,835,668,500	$ 492,340,500

IDB ASSETS AND LIABILITIES

Mr. PASSMAN. Then in a concise or condensed form list your assets.

No. 1, cash on hand; No. 2, funds invested, including the interest because it becomes a part of the income, does it not?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. And No. 3, your accounts receivable; No. 4, real estate; No. 5, fixtures; No. 6, miscellaneous.

In this manner we will get the grand total.

Then if you will, give us another table showing your liabilities.

(The information follows:)

Inter-American Development Bank Assets and Liabilities, as of December 31, 1970 (in millions of U.S. dollar equivalents)

	Ordinary Capital	Fund for Special Operations
I. Assets		
1. Cash on Hand	39.1	210.3
2. Investments	667.5	3.9
3. Loans Outstanding	661.5	604.1
4. Accounts Receivable	28.7	1,537.7
5. Real Estate	9.0	--
6. Special Reserve	25.6	--
7. Miscellaneous	16.0	0.4
8. Total 1/	1,447.5	2,356.4
II. Liabilities		
1. Funded Debt	915.1	--
2. Accounts Payable	17.9	0.3
3. Miscellaneous	1.9	2.9
4. Special Reserve	25.6	--
5. General Reserve	98.5	25.1
6. Paid-In Capital	388.5	2,328.0
7. Total 1/	1,447.5	2,356.4

1/ Excluding $14.0 million in Staff Retirement Plan assets segregated and held in trust.

Mr. PASSMAN. I am sure my very able colleague, Mr. Roybal, had the same thing in mind.

Mr. ROYBAL. Yes, I did.

ORDINARY CAPITAL ACCOUNT

Mr. PASSMAN. To make a quick record, let us look at the ordinary capital account. This account consists of the paid-in capital and the callable capital, is that correct?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. Will you tell us how much the United States has contributed to each portion. Can you pull it off the top of your head, the grant total?

Mr. COSTANZO. The U.S. contribution to paid-in capital totals $150 million.

The U.S. subscription to callable capital is $1,023,500,000. The total on both accounts, the U.S. subscription to ordinary capital, is $1,173,500,000.

Mr. PASSMAN. When you look at this callable capital of $1 billion, are you asking to have that increased this year?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. The $1 billion callable capital is to be used in case of an emergency, or the tightening up of receipts because you had some extraordinary circumstance developing to where you needed money and you had depleted your reserves we referred to earlier, then you could call on this callable capital to meet your obligations, could you not?

Mr. COSTANZO. In that kind of circumstance, we could.

Mr. PASSMAN. That is the purpose or one of the purposes, is it not?

Mr. COSTANZO. If the Bank cannot meet its obligations.

Mr. PASSMAN. That is right.

That is one of the purposes.

Mr. COSTANZO. That is right.

Mr. PASSMAN. What is the actual—let us say, the contingent liability of the Bank? Not your direct liabilities which you will list in a record, but what are your contingent liabilities that would require a billion dollar reserve?

Mr. COSTANZO. I am not sure of the real meaning of your question. There is a funded debt of $915 million, which if the Bank could not make good on when it matures then the callable capital could be used. This debt is owed to the individual bond purchasers in the private market and sometimes to foreign governments.

IDB INVESTMENT ASSETS

Mr. PASSMAN. One time you had some invested in U.S. bonds, did you not?

Mr. COSTANZO. Those are the investment assets of the banks. There are some invested in U.S. banks.

Mr. PASSMAN How much is invested in U.S. securities?

Mr. COSTANZO. At the moment Ordinary Capital holds a total of $17 million in U.S. Government securities and the Fund For Special Operations owns $3.9 million in U.S. Government securities.

Mr. PASSMAN. $3,900,000.

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. You do recall, of course, the incident involving the Asian Development Bank. The Asian Development Bank was worried about receiving applications to absorb the amount of capital they had to loan. We do recall that in the Bank's first year's operation they took money that we actually gave them in grant aid and the United States then borrowed the money back from them at 6 percent.

Do you recall that operation 2 years ago?

Mr. COSTANZO. I am not familiar with that operation.

Mr. PASSMAN. Read the record, and you will find this is true. That is in the record.

You do not have anything like that in this operation, do you?

Mr. COSTANZO. No, sir.

Mr. PASSMAN. Thank you.

We have had to tighten up our own economy and in many cases our country or our Government has committed itself to domestic projects far in excess of the amount of revenue in sight than we find we are borrowing money we have given away to multilateral organizations. With this callable capital backing up any money you borrow, would it be reasonably easy to go out in the private sector and borrow money?

Mr. COSTANZO. Yes, sir. That is in fact what happens to a large extent.

Mr. PASSMAN. It should happen to a greater extent. Do you find it easy to borrow the money you need?

Mr. COSTANZO. That depends on market conditions at particular times.

Mr. PASSMAN. Then it is reasonably easy.

Mr. COSTANZO. Yes.

IDB BORROWINGS

Mr. PASSMAN. At this particular time are you able to go in the free enterprise sector and do that?

Mr. COSTANZO. We are doing that next week in Holland.

Mr. PASSMAN. At what rates?

Mr. COSTANZO. At the market rates generally comparable to triple A corporate securities in this country.

Mr. PASSMAN. What is the actual rate at this time?

Mr. COSTANZO. In the Dutch issue right now in Holland at a coupon rate of 8 percent. In the U.S. market last fall the Bank issued its bonds at a total cost to the Bank of about 8¾ percent.

Mr. PASSMAN. What is the present rate that is being offered?

Mr. COSTANZO. It depends on market conditions at any time.

Mr. PASSMAN. You have market conditions of today?

Mr. COSTANZO. It would probably be something less than 8 percent.

Mr. PASSMAN. You still pay that much for money?

Mr. COSTANZO. Yes.

Mr. PETTY. For 25-year triple A bonds.

Mr. PASSMAN. What does the U.S. Treasury pay?

Mr. PETTY. We have none that long at the present time.

Mr. PASSMAN. What is the longest?

Mr. PETTY. Of the current borrowings, there are some for 5 years at a little over 6.

Mr. PASSMAN. Is that right?

(Discussion off the record.)

Mr. PASSMAN. Of course, Mr. Director, I am thinking in terms of the great demand upon our Government for aid to domestic programs. Of course, there are certain programs in our country that should come before similar programs in other countries.

We just wondered if we could work with you people and to ask you to please recognize that we have other problems to contend with, other than just requests for foreign aid and assistance. It may behoove you to go a little slow. We have waited for a long time to get started on some of these programs. I do not know why we take the position that they must be finished yesterday. I wish you would try to slow this down a little because we are going to have to look long and hard at some of these requests before the Congress in order to take care of our own people. I do hope, Mr. Director, that you will make it abundantly clear to these people, even though you have these nice meetings, and enjoy the social side of it, as well as the business side of it, that it is not at all difficult to get an authorization bill from the various committees involved, but the plans that you discuss are predicated on a subsequent appropriation.

There is no legal obligation on the Congress to appropriate that money.

It may be there will be some reductions. So be prepared to renegotiate. I do not think there will be any people jumping out of windows or shooting you if you put that kind of message over to them because that may be what we will be confronted with this year.

LOAN REPAYMENTS

I assume that another source of loanable funds comes from the loan repayments.

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. Could you place in the record at this point the repayments of your loans by year since the inception of the program?

Mr. COSTANZO. Yes, sir.

(The information follows:)

TOTAL LOAN REPAYMENTS BY YEAR

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	Total
ORDINARY CAPITAL			$597,848	$4,764,502	$ 8,784,243	$18,462,416	$29,503,477	$40,163,900	$51,184,382	$66,251,896	$219,712,664
FUND FOR SPECIAL OPERATIONS			88,273	805,955	3,161,208	5,472,610	6,648,439	8,564,385	11,912,337	20,667,491	57,320,698
SOCIAL PROGRESS TRUST FUND	$404,700	1,287,441	2,955,906	4,301,895	6,176,585	10,291,208	13,839,627	17,505,681	19,809,328	76,572,371	
	$404,700	$1,973,562	$8,526,363	$16,247,346	$30,111,611	$46,443,124	$62,567,912	$80,602,400	$106,728,715	$353,605,733	

Mr. PASSMAN. What is the estimated repayments for fiscal year 1972?

Mr. COSTANZO. I would have to look that up.

Mr. PASSMAN. We will take fiscal year 1971.

Mr. COSTANZO. In calendar year 1970, the actual repayments on loans in the ordinary capital were $66.3 million.

Mr. PASSMAN. At that time you had fewer loans outstanding. How about fiscal year 1971?

Mr. COSTANZO. I do not have it for calendar years beyond 1970.

Mr. PASSMAN. Could you give the total amount of payments?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. Because these three windows are a bit confusing. What is the total for calendar year 1970?

Mr. COSTANZO. $106.7 million.

Mr. PASSMAN. Whatever window this happened to fall in, that was available for new loans?

Mr. COSTANZO. That is right.

Mr. PASSMAN. Do you have an estimate for 1971?

Mr. COSTANZO. I do not have that with me, but I will supply it for the record.

Mr. PASSMAN. It would be higher than 1970?

Mr. COSTANZO. Yes.

Mr. PASSMAN. Would it be correct for the committee to assume that 1972 will be higher than 1971?

Mr. COSTANZO. Yes.

Mr. PASSMAN. You will have this substantial amount from repayments that you can reloan.

Mr. COSTANZO. Except in the Social Progress Trust Fund where the repayment is not used in making loans. But that has been taken into account in the program projections.

Mr. PASSMAN. Considering your request, the committee can take into account you have certain available funds from repayments with which you can finance new programs, and the committee can cut.

Mr. COSTANZO. Yes.

Mr. PASSMAN. Thank you very much.

Mr. PETTY. We take that into account in making the request.

Mr. PASSMAN. You always say sure, we would have asked for more if we did not have that. That is one of the old runarounds, is that right?

Let me put it this way: Had it not been for the repayments then you would have had to ask for more money to finance what you propose for the fiscal year 1972; is that right?

Mr. PETTY. Yes.

Mr. PASSMAN. We get that same argument every year.

Mr. PETTY. The committee may be interested in how we make the request.

Mr. PASSMAN. If you will put something in the record.

Mr. PETTY. I would be happy to.

(The information follows:)

APPROPRIATIONS REQUEST

The request for appropriations is based on the amounts agreed to be provided under the total IDB replenishment plan. The relevant portions of the analysis of

Ordinary Capital requirements from the April 1970 Report of the Bank's Executive Directors are shown below, indicating the manner in which repayments and other flows are taken into account:

The size of the increase in both paid-in and callable ordinary capital resources and the timing thereof must be appraised in the light of the Bank's authorized and projected ordinary operations. As of December 31, 1969, cumulative total dollar and non-member currency resources of the ordinary capital consisted of $269.2 million paid-in capital and the equivalent of $767.2 million of borrowed funds, against which a total of $1,166.7 million in loans had been committed. Taking into account $154.9 million of sales of participations and repayments on loans, dollars and non-member currencies available for commitment on that date amounted to approximately $24.6 million.

Currencies of the Latin American countries, representing the local currency portion of their paid-in capital, amounted to the equivalent of $119.2 million at December 31, 1969. At that date, after taking into account the $23.5 million of loan repayment, the equivalent of some $127.4 million in such currencies had been committed, leaving a balance equivalent to about $15.3 million.

The total callable capital presently subscribed is $1,893,775,000, of which $817,640,00 has been subscribed by the United States. Against this amount the Bank had incurred a funded debt of $767,163,000 at the close of 1969, leaving under the Bank's commitment not to assume obligations in excess of the United States subscription a borrowing capacity of $50,194,000, after provision for portions of loans sold under guarantee. After the subscription in 1970 to the second quota of the callable capital increase approved in 1968, the total callable capital will increase to $2,374.5 million and the United States subscription will increase by $205.9 million, with the unused portion of that subscription rising to $256.1 million.

It is clear from the preceding chapter that the Bank faces in the years ahead the expanding needs of its members for loan funds from its ordinary resources, reaching an average annual loan volume in the range of $300–$350 million in the 1971–75 period. In order to fulfill the expanded loan program foreseen, borrowings would be required in substantial amounts during the period. Assuming additional borrowing at normal rates, borrowing capacity will be substantially exhausted well before the end of 1971, notwithstanding the pending increase referred to in the preceding paragraph. To maintain the desirable lending level in the years from 1972 to 1975, inclusive, it is therefore necessary to take measures as soon as possible to authorize an increase of $1.6 billion in the callable capital stock. Subscriptions to the increase of both paid-in and callable capital would be distributed among the member countries in proportion to their present subscriptions as shown in table VII, with annual installments as shown in table VIII.

Once the Bank receives additional paid-in and callable capital resources it will be able to embark on an expanded loan program. Loan principal recoveries per year of $60 million in 1971 will increase by 1975 to $130 million and, together with paid-in capital, will provide a significant share of the $300–$350 million annual average target for loan commitments during the period. The net borrowings necessary to sustain the balance of the loan program will, in themselves, be made possible through 1975 by the proposed callable capital increase, although this debt will effectively exhaust the Bank's borrowing capacity by the end of that year.

LOAN CANCELLATIONS

Mr. PASSMAN. That is really funny. We hear that every year from each of the 27 spigots. "If it had not been for the repayments, we would have had to ask for more."

If we turned all the assets of America into cash, we would not have sufficient funds to do everything labeled desirable. So we have to be reasonable. Would you place in the record a list indicating the loans which have been canceled by year since the inception of the program, Mr. Director?

Mr. COSTANZO. Yes.

(The information follows:)

LOANS TOTALLY CANCELLED

Year	Loan No.	Borrower	Country	Amount	Total
1963	7/SF/PR	Estabilizadora Paraguaya de Alimentos S.A.	Paraguay		$ 150,000
1964	30A/OC/BR	Usinas Elétricas do Paranapanema	Brasil	$1,130,000	
	30B/OC/BR	Cía. Hidro-Elétrica do Rio Pardo	Brasil	270,000	
	21/OC/ES	Banco Central de Reserva de El Salvador	El Salvador	1,675,000	
	37/OC/NI	Industrias Gémina S.A.	Nicaragua	450,000	3,525,000
1965	95/OC/PN	República de Panamá	Panamá		8,500,000
1967	67/OC/AR	Cía. Sudamericana de Cemento Portland	Argentina	$7,000,000	
	139/OC/BR	Banco Do Brasil S.A.	Brasil	10,780,000	
	37/SF/GU	Instituto Nacional de Electrificación	Guatemala	300,000	
	75/SF/HO	República de Honduras	Honduras	375,000	
	99/SF/BO	Fábrica Nacional de Cemento S.A.	Bolivia	500,000	
	48/SF/HO	República de Honduras	Honduras	200,000	19,155,000
1968	103/OC/BR	Ferro y Aço de Vitoria S.A.	Brasil	$1,300,000	
	89/OC/CH	Banco Central de Chile	Chile	2,000,000	
	129/OC/NI	Banco Nacional de Nicaragua	Nicaragua	1,000,000	
	87/OC/PE	Irrigadora Chimbote S.A.	Perú	1,700,000	
	107/TF/DR	Instituto Nacional de la Vivienda	Dom. Rep.	1,735,000	7,735,000
1970	172/SF/EC	Inst. Ecuatoriano Reforma Agraria y Coloniz.	Ecuador		3,000,000 1/
					$ 42,065,000

Identification:

OC	- Ordinary Capital loans	$ 35,805,000
SF	- Fund for Special Operations loans	4,525,000
TF	- Social Progress Trust Fund loans	1,735,000
		$ 42,065,000

1/ In addition, the Bank cancelled in 1970 a loan of $1,500,000 equivalent made to Bolivia from Canadian funds administered by the Bank, making total cancellations for the year, as indicated in the oral testimony, $4.5 million.

Mr. PASSMAN. Would you tell the committee at this time the aggregate of the cancellations for calendar 1970?

Mr. COSTANZO. Yes, sir.

In 1970 the aggregate amount of cancellations was $4.5 million. Two loans were canceled in their entirety.

Mr. PASSMAN. And others reduced?

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. Of course, we would assume, then, that if this trend were to continue there would be some funds available from cancellations of a few million dollars, is that correct?

Mr. COSTANZO. There would also be some reductions in loans as the cost estimates are firmed up, yes, sir.

Mr. PASSMAN. Yes.

So if we had time to put all these little pieces together and take an adding machine and add them up, there is a lot of little money to be picked up that in an emergency could be used to finance other loans.

Mr. COSTANZO. We have taken all that into account.

Mr. PASSMAN. I know you have. But it follows nevertheless there is money coming in.

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. If we did not ask these questions we would not know about it. Is that a fair statement?

Mr. COSTANZO. It is a question of the presentation we make. We did take into account all of these.

Mr. PASSMAN. I know.

I want you to say that as often as you want—and we will discount as much as we want to—it follows nevertheless that when you put this together it makes available additional money with which you can finance loans, isn't that right? That is a fair statement, isn't it?

Mr. COSTANZO. We did take it into account.

Mr. PASSMAN. I know you took it into account. You did not answer my question. You do have the money I mentioned that can be used.

Mr. COSTANZO. And will be used.

Mr. PASSMAN. We hope not but you can use them.

Mr. COSTANZO. Yes, sir.

Mr. PASSMAN. Your plans are to use it?

Mr. COSTANZO. Yes, sir.

IDB ADMINISTRATION BUDGET

Mr. PASSMAN. Please provide for the record a copy of your administrative budget for the current and the past 4 fiscal or calendar years, whichever way you would prefer.

Mr. COSTANZO. Yes, sir.

(The information follows:)

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Inter-American Development Bank Consolidated Administrative Budget Expense of the Ordinary Capital, Fund for Special Operations, and Social Progress Trust Fund, (in thousands of U.S. dollar equivalents)

	1967	1968	1969	1970	Budget 1971
1. Board of Governors	182.7	228.0	237.3	400.7	352.0
2. Board of Executive Directors	575.0	635.6	669.7	827.3	937.6
3. Group of Controllers	--	31.7	157.5	176.3	309.6
4. Staff	11,069.5	12,428.2	14,445.1	16,284.7	19,684.9
a. Salaries	7,646.2	8,664.5	9,956.8	11,194.1	13,187.2
b. Other Compensation and Benefits	2,403.3	2,701.6	3,241.9	3,796.2	4,595.6
c. Travel	1,020.0	1,062.2	1,246.4	1,294.5	1,902.1
5. Other Administrative Expense	2,544.1	3,168.5	3,593.7	4,516.6	5,256.8
a. Communications	520.7	541.8	605.1	659.9	683.4
b. Office Occupancy	846.4	1,107.3	1,314.1	1,631.1	2,007.2
c. Publications and Printing	255.6	237.8	319.3	389.4	437.0
d. Supplies and Equipment	326.7	547.3	550.4	679.8	771.2
e. Contractual Services	450.1	509.7	550.4	915.2	1,044.7
f. Miscellaneous	144.5	224.6	254.5	241.1	313.3
6. Field Offices	2,376.9	2,703.1	2,755.8	3,142.9	3,672.8
7. Contingencies	--	--	--	--	310.0
8. Total	16,748.4	19,195.2	21,859.1	25,348.6	30,523.7

Mr. SHRIVER. If the chairman will yield, is there any place in this material where we can see your administrative budget?

Mr. COSTANZO. In the financial statements for each window of the Bank, the actual expenditure for 1969 and 1970 are shown.

Mr. SHRIVER. On the first page. This one.

Mr. COSTANZO. I am sorry.

Mr. SHRIVER. Where is it?

Mr. COSTANZO. In connection with pages which I thought were made available to the committee. The financial statements of the Bank.

Mr. SHRIVER. In other words, the committee was supplied with one copy.

Mr. COSTANZO. I am not sure, Mr. Shriver.

Mr. SHRIVER That is all.

Mr. PASSMAN. That would be the same as taking a course in Chinese characters and loaning to us one of their adding machines. You would have to be a CPA and experienced auditor to go through this and be able to pick it right now.

(Discussion off the record.)

ASIAN DEVELOPMENT BANK

Mr. PASSMAN. I have found in the hearings the incident involving the Asian Development Bank. This is on page 274, part 1, of our hearings for fiscal year 1969.

Mr. PASSMAN. I am interested in how much money the Bank reloaned to the United States out of what we advanced.

Mr. PETTY. $20 million.

Mr. PASSMAN. Isn't that a nice package? We make a contribution to the Asian Development Bank of $40 million. We are getting no interest on that; are we?

Mr. PETTY. No, sir.

Mr. PASSMAN. Then the Asian Development Bank takes $20 million of our subscription, turns around and lends it to Uncle Sam. Then Uncle Sam pays the Bank 6-percent interest on what we originally gave them. Is that the way it works out?

Mr. PETTY. Yes, sir; that is correct.

Mr. PASSMAN. I wish someone would read that.

LETTER OF CREDIT PROCEDURE

Mr. PETTY. As the chairman knows, we have adopted the procedure of making our subscriptions for these institutions, beyond the initial capital subscription, payable by letters of credit. So the initial start up expenses are not charged up against the capital.

Mr. PASSMAN. Did I read that correctly?

Mr. PETTY. You did indeed.

Mr. PASSMAN. We gave funds to them and borrowed it back for 6 percent. That is what matters.

Mr. PETTY. That is the point I am responding to. Because of the views of this committee, we adopted for most cases, a procedure by which the paid-in contribution are made in the form of letters of credit. So that except for the initial start up expenses, that would not be the case.

Mr. PASSMAN. I realize that. But this is a terrible thing for people to do, to come before a friendly committee and for lack of time to go into every detail we overfund you in a great many instances all over the world. This is just one instance. We cannot examine on 4,416 projects in 99 nations and four territories of the world. So we look at this one. Where you make a request and a sympathetic committee did not cut it, but they so overfunded this Bank that we borrowed funds from them at 6 percent. At least we should have gotten it interest free since we gave it free.

Mr. PETTY. Some was deposited in commercial banks, Mr. Chairman.

Mr. PASSMAN. It may be. I am talking about only Uncle Sam. I read it correctly.

Mr. PETTY. You did, indeed.

Mr. PASSMAN. We gave it free and we borrowed it back at 6 percent.

Mr. PETTY. We needed resources against which to make future commitments, yes, sir.

Mr. PASSMAN. If this was Thursday, I bet you would bet it was Friday.

Mr. PETTY. Not on this side of the table, Mr. Chairman.

Mr. PASSMAN. Mr. Shriver.

IDB OFFICES

Mr. SHRIVER. Thank you, Mr. Chairman.

Where are the Bank's offices?

Mr. COSTANZO. The headquarters are in Washington. The Bank has offices in each of the member countries, except two. There is a representative and a small staff for inspection and supervision problems.

Mr. SHRIVER. I notice for office occupancy you are spending in 1970 $701,000. That is rent, I presume.

Mr. COSTANZO. There is rent. In addition to the one building which the Bank owns, the Bank is renting space in buildings nearby.

Mr. SHRIVER. They own a building in Washington.

Mr. COSTANZO. Yes, 808 17th Street.

Mr. SHRIVER, How many people are on the payroll?

Mr. COSTANZO. At the present time the Bank's total staff is 1,058: 996 are at headquarters in Washington, and 62 are in the field.

Mr. ROYBAL. 62 are where?

Mr. COSTANZO. 62 are in the field offices.

TRAVEL EXPENSES

Mr. SHRIVER. You do a lot of traveling, do you not?

Mr. COSTANZO. There is the need for traveling.

Mr. SHRIVER. What is the total expense in 1970 for travel?

Mr. COSTANZO. In the ordinary capital, $545,000 for travel. Also additional amounts charged to other windows. Let me give you a consolidated figure. The total consolidated amount of staff travel in 1970 was $1,294,000. That is Bank-wide, all windows.

Mr. SHRIVER. Between here and South America?

Mr. COSTANZO. Yes, sir.

Mr. SHRIVER. And around South America?

Mr. COSTANZO. To member countries and elsewhere as required. That figure includes not only business travel but also appointment travel, resettlement travel—people leaving the Bank—and home leave travel.

Mr. SHRIVER. What is "other compensation and benefits" that is shown under your staff and under your Board?

U.S. TAXATION OF SALARIES

Mr. COSTANZO. I can read you the categories that go under that. First, tax reimbursement which applies to U.S. staff of the Bank.

Mr. SHRIVER. What is that?

Mr. COSTANZO. The salary system is on a net of tax basis. The U.S. citizens pay taxes and the Bank reimburses them for that tax payment.

Mr. PASSMAN. If the gentleman would yield, I am not going to quarrel but just ask the question: As Director, your salary is tax exempt. You pay it and the Bank reimburses you; is that correct?

Mr. COSTANZO. My basic salary is expressed net of taxes. The taxes which I pay are reimbursed.

Mr. PASSMAN. Does that apply to all the U.S. employees with the Bank?

Mr. COSTANZO. That is right, sir.

Mr. PASSMAN. They get free income tax?

Mr. PETTY. With lower salaries.

Mr. PASSMAN. What is your salary?

Mr. COSTANZO. $31,000 net of taxes.

Mr. PASSMAN. That is your net with no taxes?

Mr. COSTANZO. That is right, sir.

Mr. SHRIVER. You mean you do not pay taxes?

Mr. COSTANZO. I pay taxes and file a tax return but the amount of taxes on my salary is reimbursed to me by the Bank over and above by base salary, which is expressed on a net of tax basis.

Mr. SHRIVER. Has this been true all along?

Mr. COSTANZO. This has been true all along since the beginning of the Bank, and is patterned on the practice in other institutions, such as the World Bank, International Monetary Fund, United Nations, and other international organizations.

Mr. SHRIVER. This is revealing. Did you know that, Mr. McEwen?

Mr. MCEWEN. I certainly did not.

Mr. PETTY. We have a statement which we submitted last year during testimony on the legislation. It has the history of this tax status, the origin of it, the operations of it, and the rationale which I will be happy to submit for the record, if I may.

Mr. SHRIVER. You may as far as I am concerned.

(The information follows:)

U.S. TAXATION OF U.S. EMPLOYEES OF INTERNATIONAL FINANCIAL INSTITUTIONS

Asian Development Bank.—U.S. citizens who are staff employees of the Bank pay U.S. taxes on the same basis as do all U.S. citizens residing abroad. They do not receive reimbursements from the Bank for U.S. tax payments.

The U.S. Executive Director of the Bank and his alternate pay U.S. tax on the same basis as U.S. residents. They do not receive any reimbursement from

the Bank nor do they enjoy nonresident tax status even though they are residents abroad.

International Monetary Fund, World Bank, and Inter-American Development Bank.—All of these institutions give the same tax treatment to U.S. employees. This treatment is described below.

PAYMENT OF U.S. INCOME TAXES BY AMERICAN EMPLOYEES OF WORLD BANK GROUP

American staff members of the World Bank and its affiliated organizations are not now, and have never been, exempt from U.S. Federal, State, and local income taxes on their salaries and other compensation from the World Bank Group. They pay income taxes on these and other earnings just as other American citizens.

The World Bank Group organizations were established by and operate under international treaties called articles of agreement signed by their respective member countries (115 in the case of the World Bank). In accordance with general international practice, the articles of each organization prohibit member countries from taxing compensation paid by the organization to employees "who are not local citizens, local subjects, or other local nationals." But a member country is not prohibited from taxing the World Bank Group compensation received by its own citizens. In accordance with the Articles, World Bank Group employees who are not American citizens are exempt from U.S. taxes on their Bank Group compensation. They are, of course, subject to U.S. tax laws as to income from sources outside the Bank Group. American employees, on the other hand, are fully subject to Federal, State, and local income taxes on their Bank Group pay.

At the inaugural meeting of the Board of Governors of the World Bank in March 1946, at Savannah, Ga., a resolution was passed calling on the member countries of the Bank to take the necessary action to exempt, from national taxation, the salaries and allowances paid by the Bank to their own citizens and nationals. The bylaws of the Bank include a provision, also adopted at that inaugural meeting, directing that "pending the necessary action being taken by members to exempt from, national taxation, salaries and allowance paid out of the budget of the Bank," staff members shall be reimbursed by the Bank for taxes they are required to pay on their Bank salaries and allowances to the countries of which they are citizens.

In accordance with that provision of the bylaws, the World Bank Group states all staff salaries and other compensation on a net-of-tax basis, but pays its American employees additional amounts calculated to yield after taking account of Federal, State, and local income taxes on the total of their compensation (including these additional amounts) the same net-of-tax compensation as their non-American colleagues of equal pay status receive. The result of this system of tax reimbursement, which is necessary to insure equitable treatment of Americans whose pay is subject to U.S. income tax and non-American whose pay is not subject to tax, is that the world Bank Group pays its American staff members substantially higher amounts than its non-American employees of equal rank. For the fiscal year ending June 30, 1970, this meant an extra expenditure for the Group of $3,029,000 on account of Federal income taxes, and of $582,000 on account of State and local income taxes, representing 12 percent of the Bank's total payroll (including Americans and non-Americans).

The tax exemptions of staff members of international organizations are granted for the benefit of the organizations rather than the staff members. The exemtpion enables the organization to pay lower salaries than it would have to pay if the salaries were subject to tax.

Reference: Congressional Record—House, December 22, 1970.

Mr. PASSMAN. I hope you keep the record. Don't say "We take a lower salary." That is not the purpose of this formula at all and you know I know it. It is just the custom of international organizations where you have foreign nationals and you have local people working. Foreign nationals are exempt from income tax and they extend the same courtesy to U.S. personnel.

Mr. PETTY. To make the salary equal between the foreigners who do not pay tax and the U.S. citizens who do.

Mr. PASSMAN. That is what I said. Don't put so much icing on the cake. You know we know what it is all about. We are not quarreling.

It is a formula, whereby U.S. employees will have what they say is the same consideration as foreign nationals, they too are exempt from income taxes. I know two sisters with similar jobs, one working for an international organization and one working downtown. The one working downtown pays $643 in income taxes and the one working for the international organization does not pay any income tax. Since it is the formula and it is legislation we cannot do anything about it.

If you want the names of the individuals, I will put them in the record.

(Discussion off the record.)

U.S. SHARE OF ORDINARY CAPITAL

Mr. SHRIVER. Although the United States puts up two-thirds of the funds for the Fund for Special Operations, our percentage is going down. Would you anticipate the same thing happening to our percentage for the ordinary capital?

Mr. COSTANZO. On the Ordinary Capital as it stands, no, sir; that is a fixed percentage. However, we are discussing now a plan to expand the membership of the Bank and if that negotiation is successful that would involve a reduction in the U.S. percentage and share of contribution to the ordinary capital.

Mr. SHRIVER. What was the original rationale for our contribution to the Fund for Special Operations to be so much larger than that for ordinary capital?

Mr. COSTANZO. The basic rationale was that this was a fund to be used for concessional loans and which would involve a transfer of resources from a donor country, in this case exclusively the United States to Latin America. The main requirement was for foreign exchange in dollars, which was supplemented by Latin contributions partially in dollars originally but primarily in their own local currencies.

LOAN REPAYMENTS

Mr. SHRIVER. Has there been any income from repayments to the Bank other than the old Social Progress Fund?

Mr. COSTANZO. Yes, sir; there has been already a substantial repayment on both funds together of $277 million. It is recycled into new loans.

Mr. SHRIVER. When did the first repayments begin?

Mr. COSTANZO. On the typical project there is a grace period related to the period of construction which might be 3 years or 4 years. At that point the borrower begins to repay.

LOANS TO CHILE

Mr. SHRIVER. On page 5 of the statement you note that Cuba is not and could not be a member of the Bank. Chile still is.

Mr. PETTY. Yes, sir.

Mr. SHRIVER. How much was loaned to Chile last year?

Mr. COSTANZO. In 1971, as I mentioned yesterday, we have made two loans to Chile. Last year we did not make any loans from the Ordinary Capital. From the Fund for Special Operations we made one loan for $3 million last year.

Mr. SHRIVER. Are there projects pending there for bank financing?

Mr. COSTANZO. Not at the moment because the new Government is involved in the process of looking at its programs and priorities and has not yet developed any specific projects. So there are not at the moment any applications.

LOANS TO ECUADOR

Mr. SHRIVER. How much was loaned to Ecuador last year?

Mr. COSTANZO. $32.3 million for a total of four loans.

Mr. SHRIVER. Are projects pending there for bank financing in the future?

Mr. COSTANZO. Yes, there are some applications on hand which are being worked on by the staff.

ECUADOREAN BOAT SEIZURES

Mr. SHRIVER. When one of our vessels is seized by Ecuador, what happens, if anything, relative to the Bank?

Mr. COSTANZO. Nothing in the Bank directly in the first instance. However, the position the U.S. Director will take on loan proposals before the Board is something on which I would have to consult very carefully with the various agencies of the U.S. Government involved, principally the State Department, in the kind of case you cited.

Mr. SHRIVER. Has anything ever happened?

Mr. COSTANZO. The question has not arisen this year because nothing has been before the Board.

Mr. SHRIVER. Has it ever?

Mr. COSTANZO. Not in my tenure in the Bank the past year. I am not sure about the earlier period.

Mr. PETTY. This raises the question that I was referring to yesterday. When we have a problem in our bilateral relations with another country, in this case a member of the Inter-American Development Bank, we pursue efforts to resolve the differences through our diplomatic channels, through bilateral approaches, through the bilateral assistance program. We examine all the alternatives available.

Included among the alternatives is the multilateral institution. The question that comes to us very frequently as a policy matter in addressing ourselves to the Ecuador boat seizure problem—it disturbs us very much—is whether the first button we hit, our first response, is to go to the Executive Director of the institution or whether we pursue the issue initially on the bilateral route. In the long run we support the Inter-American Bank because it is in the overall national interest of our country in the long term. Obviously there does come a point where there is a tendency to look on that as one of the later buttons to push.

Mr. SHRIVER. You have not had occasion to with reference to Ecuador?

Mr. PETTY. No, sir.

Mr. SHRIVER. Or Chile?

Mr. PETTY. We made it clear with the affirmative vote the U.S. Director gave to the two universities in January, we were not prepared to support new loans to Chile, pending clarification of outstanding differences.

SOURCE OF FUNDS FOR LATIN AMERICA

Mr. SHRIVER. You said the IDB and the World Bank represent a major proportion of external finance in Latin America. What is the proportion? You can put it in the record.

Mr. PETTY. Roughly 90 percent of the savings and capital expenditures in Latin America come from the country itself. Overall, about 10 percent comes from external sources, including the World Bank and IDB.

It is clearly the margin of assistance that is so important.

Mr. SHRIVER. What you are saying is that the Inter-American Development Bank and the World Bank represent 10 percent.

Mr. PETTY. And other official aid. I can give you the exact figure.

Mr. SHRIVER. Why don't you put a statement in the record.

(The information follows:)

OFFICIAL AID

The attached table provides a breakdown of development assistance by major institutions and the assistance reported to the Development Assistance Committee (DAC) by Western European countries, Canada, Japan and Australia.

insert p 1139 b

DISTRIBUTION OF ASSISTANCE TO LATIN AMERICA BY COUNTRY
Official Bilateral and Multilateral Development Aid, 1961-70
[in millions of dollars]

Country	Inter-American development loans: Ordinary capital	Inter-American development loans: FSO	Progress Trust Fund[1] loans	World Bank loans	International Development Association loans	International Finance Corporation loans[2]	United Nations Development Program	Export-Import Bank Loans and financial guaranties	Agency for International Development: Loans	Agency for International Development: Grants	DAC Member Countries[3/]	Total
Argentina	282.3	222.7	43.5	357.7		11.3	13.8	437.0	111.6	17.4	369.9	1,867.2
Bolivia		82.0	14.5	23.3	25.8		9.3	9.2	114.9	40.7	19.6	330.3
Brazil	386.0	403.4	62.1	571.0		39.7	17.6	882.2	1,130.0	136.8	387.3	4.016.1
Chile	102.1	151.5	35.3	126.2	16.8	15.4	18.7	575.9	461.8	31.9	230.8	1,766.4
Colombia	141.8	165.1	49.0	537.9	19.5	17.0	15.4	226.5	612.2	44.2	23.4	1,852.0
Costa Rica	15.3	34.6	11.7	76.4	4.7	.6	2.8	15.6	73.2	18.0	2.5	255.4
Dominican Republic	6.0	44.5	8.6	25.0			4.3	43.5	73.5	31.2	1.3	237.9
Ecuador	13.8	67.4	27.8	18.3	24.6	2.3	12.3	27.5	69.3	38.4	8.9	310.6
El Salvador	6.9	15.5	21.9	23.1	7.3	.9	4.5	18.3	53.6	21.2	3.7	176.9
Guatemala	11.2	53.8	14.3	28.3			4.9	91.9	63.0	28.0	7.6	303.0
Guyana				8.8	5.1		5.2		37.7	10.2	59.6	126.6
Haiti		12.3			.3		3.9	0.1	-2.6		1.6	15.6
Honduras	.5	46.8	7.7	32.4	24.0	.8	2.7	2.5	43.1	21.8	5.3	187.6
Jamaica		10.9		46.4		3.1	4.0	36.1	12.6	6.9	52.4	172.4
Mexico	267.7	228.1	35.1	767.5		28.7	13.7	851.8	66.5	3.2	N.A.	2,262.3
Nicaragua	19.5	42.9	13.1	24.4	2.5	2.1	4.0	11.5	72.6	20.1	0.8	213.5
Panama	1.5	34.2	12.9	46.0			5.0	25.4	101.0	22.3	14.0	262.3
Paraguay	6.0	83.5	7.8	17.3	21.4		5.1	6.5	35.8	21.7	14.2	219.3
Peru	43.6	134.1	46.5	162.1		4.3	15.3	144.4	101.4	47.3	72.8	771.8
Trinidad and Tobago		8.9		46.4			2.7	15.4			N.A.	73.4
Uruguay	47.8	40.2	10.5	55.5			3.6	302.9	47.6	11.1	7.3	526.5
Venezuela	104.9	91.2	73.0	294.2		22.1	9.7		55.5	12.8	40.7	704.1
Regional[4]	18.4	50.7	22.2			10.0	40.3		214.7	178.3		534.6
Other Latin American							8.5	84.0				92.5
TOTAL	1,475.3	2,024.3	517.5	3288.2	152.0	158.3	227.3	3,808.2	3,569.0	763.5	1,323.7	17,287.3
U. S. Share (percent)												
Public[5]	42.47	80	100	27.42	31.58	32.88	40.0	100	100	100		
Private[6]	42.47			37.5								
Estimated U. S. input	626.6	1,619.4	517.5	1,067.3	48.0	52.0	90.9	3,806.2	3,549.0	763.4		

1/ Fiscal years
2/ Calendar years
3/ Western Europe, Japan, Canada and Australia. Covers period 1960-68 only
4/ Includes CABEI, ROCAP, ADELA, etc.
5/ U.S. Government subscription to the capital of the institution involved
6/ U.S. percentage of funds raised by floating bond issues in private capital markets

N.A. Not Available

Mr. COSTANZO. The World Bank and IDB are making about the same level of development loans to Latin America. AID is the other major U.S. agency involved and it is doing at the present time substantially less than the World Bank and IDB individually are doing in Latin America.

ELIGIBLE IDB BORROWERS FROM FSO

Mr. SHRIVER. On page 8 of the statement you mentioned the criteria used to determine the countries eligible for loans from the Fund for Special Operations. Would you list those countries which are eligible? You can do that for the record.

Mr. COSTANZO. Mr. Shriver, all the member countries are eligible for loans from the Fund for Special Operations. The criteria are designed to distinguish between the countries in a stronger position, which can take more of their total external loans on hard terms, and those in weaker positions, which need more concessional terms. It is a question of establishing the degree of concessional support.

Mr. PETTY. An important feature of the replenishment of the Fund for Special Operations that is before the committee today, is that it responds to the views of Congress and our discussions and our attitude. In the last negotiation a year ago through the Executive Board and through the Board of Governors, we obtained an agreement on the part of the Latin countries, the richer Latin countries, to undertake an act of self-denial, if you will, of countries like Venezuela, Mexico and Argentina to lessen their call on the fund as a way of making more of that soft resource available to the poorer countries in Latin America. As a matter of fact, we obtained through the Executive Board, through the Latin Americans, agreement to the view of the U.S. Government conveyed as a result of the congressional soundings, and the executive branch.

Mr. CONSTANZO. We obtained an agreement and the Board is working on a revision of the criteria to make them much clearer and more stringent so that the poorer countries get the main benefit of the soft terms.

STAFF LOAN PROGRAM

Mr. SHRIVER. Would you explain further the result of the inquiry into the staff loan program you mention on page 12?

Mr. COSTANZO. Yes, sir; as a result of the discussion in Congress last year, this matter was reviewed by the Board of Executive Directors. That review has not been completed, in part because we had a change in presidency at the Bank. As you may know, that program has three components, one of which is installation loans—where a person can get a salary advance up to 1 month's salary, repayable in 6 months when he enters employment of the Bank. The Board of Executive Directors in its first review set a limit on the amount of those loans outstanding in the amount of $60,000; but otherwise decided to continue the program as something essentially related to new employment and available on a one-time-only basis.

The second and largest component of the loan program was for housing loans where up to 6 months salary could be obtained, repay-

able in 3 years. On that, the Board review is not yet complete. There have been considerations of various alternatives, but we are currently thinking of a system which would set limits on the amount and would exclude the Directors and senior staff. But that discussion is continuing and is being discussed with the new president of the Bank. I hope shortly we could have something by way of a concrete proposal for change. The third component of the program is emergency advances to the staff. That program has now been limited to staff with a salary below a certain maximum level, and the funds available for this program have been limited to $40,000, which was obtained by the Bank as a rebate on group insurance policies and which is attributable to some of the staff, past and present. Rather than to think of any other disposition of this rebate, it was set aside as a fund which could be used for these emergency advances on the basis of a clear and compelling need, and limited to $40,000.

INDEPENDENT AUDIT MECHANISM

Mr. SHRIVER. Would you also comment on the establishment of an independent program audit mechanism mentioned on the same page?

Mr. COSTANZO. That was established through the Selden amendment, an international group of auditors, one from the United States, one from the larger Latin American countries, and one from the smaller countries, independent of the president and management of the Bank, reporting directly to the Executive Board, to conduct audits and evaluations of any activity—primarily loan activity, but any other activity within the Bank. That group began work. It was hampered somewhat and delayed because the U.S. member became ill and had to resign and it took some time to replace him.

They have done two studies: One of all the Bank's operations in Venezuela and one of Paraguay. They are currently engaged in a study of all of the Bank's activities in education. They operate independently. They submit their reports directly to the Board, which then reviews and on the basis of things pointed out in those reports, instructs management to take remedial measures as may be indicated or reconsiders policy.

Mr. SHRIVER. Thank you.

Thank you, Mr. Chairman, that is all.

LEGAL BASIS FOR STAFF LOANS

Mr. ROYBAL. I would like to follow along the lines of the preceding questions. I would like to know under what authority are loans made to the staff.

What specific authority do you have in the law that makes it possible for a bank that is supposed to dedicate its resources to the development of Latin America to make it possible to make loans to the staff under the conditions that you have outlined.

Mr. COSTANZO. I would have to consult legal counsel on that for the firm reply. I would say that the funds used for this program were not the capital funds of the Bank. The funds used were funds generated through net income of the Bank and therefore did not directly reduce the amount of funds available for loans.

Mr. ROYBAL. Isn't it true that the net income of the Bank is the result of money made available by the United States and other countries?

Mr. COSTANZO. Yes.

Mr. ROYBAL. That net income is the sole property of the Bank.

Mr. COSTANZO. As I say, I would have to consult counsel on this.

The general way in which this was done was this was a program related to staff remuneration and benefits. I might also add that in adopting the program the Bank simply proceeded in the way which was already started by other similar agencies. It was felt that this Bank should do the same for its personnel.

Mr. ROYBAL. If you have any authority to do this, there is no objection. If that authority was just something that was acquired simply because of custom then I think we have to reexamine the situation.

Why can't the Bank make available some kind of a guarantee program so that the individual in question will go to the bank in his neighborhood and get that loan with the amount being guaranteed by the Bank itself. That way he will be dealing directly with the community. He will be a part of the economic lifestream of that community. In my opinion, it would be a more acceptable situation than the one that has been described by you.

Mr. COSTANZO. Mr. Roybal, I think if the Bank issued guarantees it would impinge even more on the capital funds of the Bank and the Bank's capacity to make loans. Under the Bank's charter any guarantees issued by the Bank are chargeable to the callable capital of the Bank.

Mr. ROYBAL. First of all, we have to find out what your authority is. Then if you do have legal authority, then let us try to determine whether or not this is the best way of handling the situation.

Mr. COSTANZO. I would say this was done under the general authority of the Bank to make rules, to determine compensation for staff, et cetera. And considered in that way, as a part of the treatment and remuneration of the staff. I will supply additional information for the record.

(The information follows:)

The General Counsel of the Bank has provided the following information: The program of financial assistance to employees through loans was set up under the authority granted by article VIII, section 5, of the agreement establishing the Bank for the employment of officers and staff and for the determination of the conditions of their service. Among other things, subsection 5(e) provides "The paramount consideration in the employment of the staff and in the determination of the conditions of service shall be the necessity of securing the highest standards of efficiency, competence, and integrity. Due regard shall be paid to the importance of recruiting the staff on as wide a geographical basis as possible." Under article VIII, section 3 of the agreement, the Board of Executive Directors has basic responsibility for the conduct of the Bank's operations (subsection (a)) and specifically shall determine the basic organization of the Bank, including the number and general responsibilities of the chief administrative and professional positions of the staff, and shall approve the budget of the Bank "(subsection (i)). In conjunction with the management of the Bank, the Board has considered that a program of limited financial assistance to staff members, especially in connection with their relocation to Washington, was essential to obtaining the necessary caliber of employees and particularly to securing employees from the Latin American countries. In effect, the financial assistance granted has been in the form of advances of salaries repayable by monthly deductions over restricted specific periods of time, with interest on all except purely temporary advances.

Mr. ROYBAL. Are the 1,058 members of the staff eligible for loans?

Mr. COSTANZO. On the basis presented. When they enter employment for the first time, they would be eligible for 1 month's salary advance for installation expenses. For housing, if they are purchasing a house, under the present rules they are eligible to submit an application to a committee which would determine whether or not there was a need and decide whether or not to grant a loan.

APPROVAL OF STAFF LOANS

Mr. ROYBAL. My understanding is that in the past it was strictly up to the President of the Bank to make that determination.

Mr. COSTANZO. No, sir. There is a Financial Assistance Committee headed by an Executive Director to which applications were made.

Mr. ROYBAL. To your knowledge how many applications were rejected insofar as housing was concerned?

Mr. COSTANZO. I do not know. But I can tell you how many loans are outstanding.

Mr. ROYBAL. Can you also tell us at what percent the loans are made?

Mr. COSTANZO. Yes, sir. The housing loans are made at 6 percent currently.

Mr. ROYBAL. Very good.

Mr. COSTANZO. The total number of loans outstanding, I am sorry I will have to add up.

In 1970 the total number of loans of all kinds made under this program were 95 in the total amount of $240,000. The total of loans outstanding of all kinds at the end of the year were $353,000. That had come down somewhat from 1969 when the total was $375,000.

Mr. ROYBAL. Will you supply for the record information that will tell us how many of the 1,058 employees have received loans from the Bank?

Mr. COSTANZO. I can do that.

Mr. ROYBAL. And then the full amount that was loaned to them.

Mr. COSTANZO. Yes.

(The information follows:)

STAFF LOAN PROGRAM

Of the 1,058 Bank employees as of December 31, 1970, 491 had received loans under the staff loan program, since its inception, in an aggregate gross amount of $1,784,552. Of this latter gross amount, the net amount of loans outstanding as of December 31, 1970, was $353,197.

CORPORATE PRACTICE ON STAFF LOANS

Mr. PETTY. I might point out that the practice in corporations in this country and banks of providing short-term temporary assistance to the employees has ample precedent. I think the question we are concerned with is whether in this international organization even stricter standards should not apply. In addition, we have the problem of being a part of a 23-member nation organization where each country has its own particular standards. We are clearly moving in the direction of reducing the employee staff loan program.

We have made some progress. We are in the process of pushing for more. I think the attitude of Congress on this has clearly been expressed. The executive branch has initiated a program to reduce it and still provide adequate benefits to people and the suggestion by Mr. Roybal of borrowing from commercial banks is one other approach.

I think it would be particularly helpful to us to get your views to contribute to our own thinking how we can work through the executive board, to arrive at what is still yet to be fond as the final solution.

LOCATION AND NATIONALITY OF STAFF

Mr. ROYBAL. Of the staff you have, you stated there were 196 in Washington and 62 of those are in the field.

Mr. COSTANZO. No, sir. In Washington, 996. In addition, 62 in the field. So the total regular staff is 1,058.

Mr. ROYBAL. I am sorry, I put down 196.

Mr. SHRIVER. If the chairman will yield, how are they broken down by nationality?

Mr. COSTANZO. The U.S. nationals comprise 18 percent of total employment. Twenty-five percent of the professionals are U.S. nationals, 10 percent of the administrative staff are U.S. nationals. As for the other countries, there is a wide distribution which I would be very happy to supply.

Mr. SHRIVER. Why don't you put it into the record at this point?

Mr. COSTANZO. Yes, sir.

(The information follows:)

INTER-AMERICAN DEVELOPMENT BANK, INTERNATIONAL STAFF DISTRIBUTION BY NATIONALITIES (AS OF DECE 1BER 31, 1970)

	Professional and administrative personnel	
	Number	Percentage
Country:		
Argentina	96	9.07
Bolivia	57	5.39
Brazil	75	7.09
Chile	61	5.76
Colombia	76	7.18
Costa Rica	28	2.65
Cuba	47	4.44
Dominican Republic	22	2.08
Ecuador	42	3.97
El Salvador	30	2.84
Guatemala	28	2.65
Haiti	8	.76
Honduras	9	.85
Couutry—Continued		
Mexico	39	3.69
Nicaragua	9	.85
Panama	21	1.98
Paraguay	17	1.61
Peru	100	9.45
Trinidad-Tobago	1	.09
United States	190	17.96
Uruguay	68	6.43
Venezuela	33	3.12
Others	1	.09
Totals	1,058	100.00

U.S. SHARE OF STAFF POSITIONS

Mr. SHRIVER. Once again, you are giving the percentage of U.S. citizens.

Mr. COSTANZO. Yes.

Mr. SHRIVER. It certainly is not in proportion to the amount of money we contribute.

Mr. COSTANZO. No, sir; it is not; it is less. This has been a concern that we have constantly expressed to the Bank—an appropriate number of Americans in positions where their particular capabilities can

be used effectively, which is very important. The number and percentage have gone up recently in the past year or so.

Mr. SHRIVER. The reason I am bringing this out is that we have a tremendous unemployment situation in this country. In my own city it is 11 percent; something like 18,000 people out of jobs. You see what I am thinking about?

Mr. COSTANZO. Yes, sir.

Mr. ROYBAL. Will you also supply for the record any agreement that we might have entered into at the time the Bank was established in regard to percentages, if there was any agreement. What I am getting at, were we supposed to have 33 percent of the personnel and the other countries get the rest, or was there any agreement of any kind at the beginning?

Mr. COSTANZO. There is no such agreement. There is a provision in the charter, "The paramount consideration in the employment of the staff and in the determination of the conditions of service shall be the necessity of securing the highest standards of efficiency, competence and integrity. Due regard shall be paid to the importance of recruiting the staff on as wide a geographical basis as possible."

Mr. ROYBAL. As wide a geographical basis as possible would not only mean you will get employees based on their capabilities from all over this hemisphere, it would also mean that people in the United States should also get due consideration.

NUMBER OF FIELD PERSONNEL FLUENT IN SPEECH

So my next question is, of the 62 field men working in the field, are they all fluent in the Spanish language? I mean really fluent in the Spanish language.

Mr. COSTANZO. I am not sure I can answer that.

Eight percent, five people out of the 62, of the field staff are U.S. nationals. I would assume that generally they are fluent in Spanish but I will have to check.

Mr. ROYBAL. I would assume by the nature of the Bank that they would have to be fluent in Spanish. I guess if we look into it we will find some that are not fluent in the Spanish language. Of the employees that you have in Washington, how many Americans are there with Spanish surnames?

Mr. COSTANZO. I would have to check that, sir. I really do not know.

Mr. ROYBAL. That would be most important. The Latin American Bank I think should have the majority of its employees made up of Americans with Spanish surnames who speak the language fluently, who are accountants and economists and there are those who are hired. If you do not have any hired, a great mistake has been made.

Mr. COSTANZO. There are many, but I do not have the number.

Mr. ROYBAL. Will you tell us whom and what the positions are?

Mr. COSTANZO. Yes, sir.

(The information follows:)

U.S. NATIONALS WITH SPANISH SURNAMES—AS OF DECEMBER 31, 1970

Professional:

Alvarez, Charles M., information specialist
Alvarez, Ronald A. F., information specialist

Professional—Continued

Angelo, Richard A., business management officer
Apodaca, Francisco A., personnel officer
Arias, Ronald F., information specialist
Baquis, Corrado, loan administration analyst
Borge, Carlos, engineer.
Echevarria, Oscar A., systems analyst
Garcia-Melendez, Mrs. Jo Anne, administrative officer
Garcia, Caroll I., financial officer
Gomez, Michael A., economist
Illan G., José M., financial specialist
Iraola, Manuel J., auditor
Leroux, Raúl R., contract analyst
Liacuris, Jorge M., auditor
Lluy, Jorge J., Telecommunications specialist
Manzanera T., Manolo, loan officer
Martino, Orlando D., loan administration officer
Mathieu, Eugenio J., financial officer
Maza, Eneas, housing specialist
Menéndez, José A., financial analyst
Moliné, René, P., systems analyst
Morales, Mrs. Ruth C., translator-reviewer
Muñoz Carrasco, Mrs. Patricia, administrative officer
Narganes, Aurelio R., simultaneous interpreter
Orlando, Frank S., economic statistician
Ortíz de Leon, Eduardo, tourism specialist
Pérez Colón, Mrs. Irma, administrative officer
Ríos, Manuel J., technical assistance analyst
Rodríguez, Louis A., economist
Santaballa, José R., personnel officer
Soler, Gustavo, auditor
Suro, Alfonso J., financial officer
Toro, Ademar, auditor
Troncoso, Mrs. Ann W., training officer
Troncoso, Luis, loan administration officer
Vega, Jr., Antonio, accountant

Administrative:

Alonso, Mrs. Judy
Azevedo, Mrs. Athene C.
Berrio, Mrs. Valerie K.
Campina, Antonio S.
Carballal, Mrs. Rebecca
Cherny, Mrs. Inés
Conde, Miss Ana I.
De Britto, Mrs. Rafaelina
Furcron, Mrs. Katherine de
Galliani, Mrs. Dora
García, Mrs. Elia F.
Lara, Miss Hazel
López, Miss Ana O.
Márquez, Miss Graciela
Ménéndez, Mrs. Carmen
Migliazzo, Mrs. Edna C.
Oviedo, Mrs. Mommina P.
Owens, Mrs. María del Carmen
Ramírez, Miss Guillermina
Riva, Mrs. Elvira
Rivera, Mrs. Orpha S.
Vergara, Mrs. Mary Virginia
Zucchet, José L.

FIELD STAFF

Permanent Employees:

Browne, Luis F. V., country representative
Elac, John, economist
Garayta, Jorge A., engineer

Contract Employment:

Albarrán, Eugenio Jorge, architect-urban planning
Mena, Carlos F., hydraulic engineer
Paz, José A., civil engineer
Sánchez, José J., civil engineer
Souza, Richard V., telecommunications specialist
Uceda, Antenor, civil engineer
Vallejos, Nicolas O., civil engineer

SALARY OF DIRECTORS AND PRESIDENT

Mr. ROYBAL. You indicated awhile ago that your salary was $31,000 a year.

Mr. COSTANZO. Yes.

Mr. ROYBAL. What is the salary of the President?

Mr. COSTANZO. $44,000 a year as a base salary.

Mr. ROYBAL. He does not pay an income tax to the U.S.?

Mr. COSTANZO. No, sir; he does not.

Mr. ROYBAL. But he does have other fringe benefits.

Mr. COSTANZO. He has an expense account allowance up to $16,000 a year.

Mr. ROYBAL. He has an automobile or a limousine?

Mr. COSTANZO. Yes, sir; there is a car provided.

Mr. ROYBAL. Are you provided with a car, too?

Mr. COSTANZO. No, sir.

Mr. ROYBAL. Why not?

Mr. COSTANZO. It has never been the practice at the Bank. A car is provided to the President and Vice President and there is one car which the Director and Senior Staff may call upon for use to go to a meeting, but I have not used it.

Mr. ROYBAL. You can go to the pool and get one assigned to it?

Mr. COSTANZO. That is right. There is one car, no pool.

EXECUTIVE VICE PRESIDENT

Mr. ROYBAL. I have heard from many individuals that the President in the past has run the Bank with an iron hand, and that his American counterpart has not had any influence in the administration of the Bank. This is again hearsay. What is the situation?

First of all, what is the situation at the present time?

Mr. COSTANZO. At the present time there is a new president. The executive vice president is a U.S. National. He is the second man in the Bank. He acts as president and chairman of the board in the absence of the president. His key function internally is as chairman of the loan committee where he chairs a senior staff committee at which all loan proposals are reviewed in detail, and amended before they are passed on to the board. Of course, there are any number of day-to-day things which are approved by the vice president: Day-to-day decisions on staffing and so on which need not engage the attention of the president.

Mr. ROYBAL. The Lincoln Sandelin Report and the Powelson Loan Study indicated that the vice president exercised very little authority in determining or making determination with regard to loans. By reading this report one gets the impression that the president made the determination and the vice president just followed along.

Mr. COSTANZO. Insofar as I am concerned, everything that comes to the board by way of loan proposals has been approved and cleared by the loan commtitee which is chaired by the executive vice president.

Mr. ROYBAL. Who dictates to the executive vice president and the loan committee?

Mr. COSTANZO. I cannot say. There is a question of the relationship between the executive vice president and the president and how they work together.

Mr. PETTY. Dr. Herrera, the recent president of the Bank and with it before it was created, played a very strong leadership role. He was the dominant principal in the management of the Bank. The relationship of the No. 1 man and No. 2 man in any organization is a function of the personalities of the individuals. I am impressed with the leadership that Mr. Ortiz Mena is bringing to the Bank. His long experience of drawing heavily on the staff is important for the staff, and I predict it will be the pattern of the future.

Mr. ROYBAL. Shall we recess for a little while and be right back?

(Recess.)

DUTIES OF EXECUTIVE DIRECTOR

Mr. PASSMAN. The committee will come to order. What are your duties as director? How do you fit in the hierarchy of the Bank?

Mr. COSTANZO. I am not part of the management of the Bank. The charter distinguishes between the management, which is headed by the president, and the Executive Board which consists essentially of representatives of governments. So in effect, I am the representative of the U.S. Government in the Bank as a member of the Board. The charter makes the board responsible for the conduct of the Bank's operations. We investigate and must approve all loan proposals and technical assistance proposals. We approve the administrative budgets. We approve the number and general duties of staff positions in the Bank, et cetera. In acting as U.S. Director and U.S. representative, I look to the U.S. Governor, who is the Secretary of the Treasury and from whom by statute I get my instructions. He in turn is required by the statute to consult with the National Advisory Council on which the Department of State, the Export-Import Bank, the Department of Commerce and the Federal Reserve are represented.

Mr. PETTY. May I add a point, Mr. Chairman? The U.S. Executive Director is appointed or nominated by the President and confirmed by the Senate, which is the same arrangement we have with the other institutions, such as the World Bank, Asian Bank, et cetera.

Mr. PASSMAN. Is there anyone else from the U.S. appointed by the President?

Mr. PETTY. No. Recent legislation has provided that the alternate Executive Director is appointed by the President. Heretofore, the present incumbent, Mr. Ray Sternfield, was appointed by the Executive Director. Mr. Costanzo is also Special Assistant to the Secretary of the Treasury. He spends 100 percent of his time, as does Mr. Sternfeld, on the Bank.

Mr. Sternfeld is a full-time full day alternate.

Mr. PASSMAN. I was not sure how you fitted in the organization. I am glad that was clarified for the record.

Mr. PETTY. In the corporate sense it is comparable to the resident stockholder representative with 42 percent of the votes in his pocket.

Mr. PASSMAN. He is able to exercise that authority.

Mr. PETTY. Yes, sir.

Mr. PASSMAN. Forty-two percent of the autority on the Board.

Mr. PETTY. Yes, sir.

The cardinal feature of these development institutions is that we operate on the weighted voting system; not one country, one vote.

Mr. PASSMAN. Can it be said we are 42 percent responsible for some of the bad loans that were made?

Mr. PETTY. And 100 percent of the good loans.

BAD LOANS

Mr. PASSMAN. No, my understanding is that you claim to have only two bad loans. What is your definition of a bad loan?

Mr. COSTANZO. In the sense that we discussed yesterday, loans which have gone into default, they number two. There is what you might call a broader definition of bad loans, loans which have had problems or difficulties. We have had some of those. There have been some instances of loans where the guarantor had to make good, where the borrower himself was not able to meet loan service payments.

Mr. PASSMAN. How many of the bad loans have been rescheduled?

Mr. COSTANZO. There have been no reschedulings as such. There have been what you might call deferrals, similar to reschedulings. In cases where repayment was scheduled to begin after completion of construction in 4 years and it took 5 years, for example, the initial amortization payment may have been deferred a year or two. There have been few cases where the final amortization payment was correspondingly delayed in relation to actual project implementation.

Mr. PASSMAN. Some accommodation was made to put it in the category of a good loan.

Mr. COSTANZO. I would not put it that way. This is related to the construction period and the actual completion of the project—so it could produce the revenue for repayment of the loan—if the original estimate was 3 or 4 years and it took longer. There have been relatively few accommodations of that type.

Mr. PASSMAN. But there have been some.

Mr. COSTANZO. Mr. Sternfeld says about 17 of that type. But not rescheduling in the sense of the whole thing pushed forward.

Mr. PASSMAN. Mr. McEwen.

Mr. MCEWEN. Thank you, Mr. Chairman, Mr. Costanzo, along the line that the gentleman from Kansas first opened up here with regard to the administration of your agency, I notice in your 1969 report, entitled "A Decade of Service to Latin America, 1960 to 1970". it lists the Governors and alternate Governors, and there are 23, is that correct?

Mr. COSTANZO. That is right. Each member has a Governor and an alternate Governor.

ANNUAL MEETING EXPENSES

Mr. MCEWEN. I notice you list under Administrative expenses—I am referring to the Price-Waterhouse report of audit dated February 10, 1971, on page 4—you list under Administrative expenses, Board of Governors annual meeting, $172,322.

Mr. COSTANZO. Yes, sir.

Mr. MCEWEN. Mr. Costanzo, is that the cost of conducting your one annual meeting?

Mr. COSTANZO. Yes, sir. It is the partial cost because you are looking at only the ordinary capital accounts. On a combined basis, all accounts, the total cost of the annual meeting in 1970 was $366,000.

Mr. MCEWEN. Could you break down that total of $366,000 and where that money is allocated?

Mr. COSTANZO. Yes, sir. $198,000, the major part, was travel expense; $34,000 was for representation; $38,000 for local personnel; publications and print, $6,000; supplies and equipment, $23,000; space expense, $19,000; transportation of goods, documents, and so on, $34,000, and there is a miscellaneous item of $14,000.

Mr. MCEWEN. That totals $366,000. That was the cost of your annual meeting in 1970?

Mr. COSTANZO. That was in Punta del Este, Uruguay, in 1970. Mr. Sternfeld reminds me that there was also in 1970 a special meeting of the Governors in Mexico City in the fall, on the negotiations of the question of broadening the membership of the Bank. The expenses of that meeting would be included in this.

Mr. MCEWEN. It would be included in this figure of $366,000.

Mr. COSTANZO. That is right.

Mr. MCEWEN. May I say my interest is aroused because I am a new member of this committee. My experience with banks has been on the board of a little country bank, so I am not familiar with annual meetings costing $366,000. I cannot help but be curious, about it. You say it cost $198,000 for travel expense?

Mr. COSTANZO. Yes, sir.

Mr. MCEWEN. There are 23 members of the Board, is that right?

Mr. COSTANZO. Of the 23 Governors; yes.

Mr. MCEWEN. This is the annual meeting of the Board.

Mr. COSTANZO. Yes.

Mr. MCEWEN. I am assuming that it did not cost $198,000 for travel expenses of just those 23 Governors.

Mr. COSTANZO. No, sir. In addition to Governors there are alternate Governors.

Mr. MCEWEN. Do they attend the meeting if the Governor is there?

Mr. COSTANZO. Yes; they normally do.

Mr. MCEWEN. They both attend normally?

Mr. COSTANZO. They both attend. The bulk of this expense was for travel expenses of Bank officers and staff.

Mr. MCEWEN. How many people would be involved in this $198,000 of travel expense?

Mr. COSTANZO. I can get the precise information and supply it for the record as to how many people were covered by this. I do not have that.

(The information follows:)

TRAVEL EXPENSES FOR ANNUAL MEETING

Travel expenses in connection with the Board of Governors' annual meeting in Punta del Este, Uruguay, in April 1970, totaled $197,942.

Of the total amount, $175,085 represented air fare and per diem expenses of 175 persons. Included in the latter were 83 persons forming the Secretariat

of the meeting, responsible for arranging and providing administrative and other support services for the conference. These services required trips to the meeting site in advance of the meeting for necessary preparations, as well as stays at the site longer than the 1-week duration of the meeting.

The remaining amount of these expenses—$22,857—financed per diem expenses of locally hired personnel recruited to assist in providing administrative services. As the meeting did not take place in a large city, it was necessary to recruit this personnel from Montevideo, and to provide a per diem allowance for their time spent in Punta del Este.

It should be noted that the location at Punta del Este required substantially higher air fare costs than did the 1969 meeting in Guatemala. An individual round trip ticket to Punta del Este cost almost 2.5 times a round trip ticket to Guatemala City.

Mr. McEwen. Pending that, could you give us any sort of estimate? Would it be 50, 100, 200, 500?

Mr. Costanzo. Mr. Sternfeld perhaps could help me. He has been around a little longer. I do not know.

Mr. Sternfeld. I don't know.

Mr. Costanzo. We would have to check that.

REPRESENTATION EXPENSES

Mr. McEwen. Could you give us a breakdown of $34,000 I believe you said for representation?

Mr. Costanzo. Yes, sir.

Mr. McEwen. What does "representation" mean?

Mr. Costanzo. These were official functions. Let me give you examples. The President of the Bank gives a dinner for the Board of Governors on the first night. There is a reception given by the President and the Executive Board. There are various lunches given for country delegations, and also for special guests. The meetings are really in the nature of a major international conference and they have attracted attendance by representatives of business and financial communities all over the hemisphere. The total attendance of all kinds, not only the officials, but the guests who come on their own, has been a thousand or more.

Mr. Passman. If the gentleman would yield, you know what we call this down in Louisiana? Eating high on the hog. Thank you.

LATIN AMERICAN HIGHWAY DEVELOPMENT

Mr. McEwen. Mr. Chairman, if I might, there is one other matter that interests me. For 6 years I served on the Public Works Committee where I heard something of the members' requests for rivers and harbors and highways, and, more recently, of course, the needs of so many of our communities for water treatment facilities and sewage treatment plans. Again referring to your publication, "A Decade of Service to Latin America, 1960–1970," I noted on page 8 of that document a highway map of South America. Having up until now been somewhat more familiar with the Interstate and Defense Highway System that we are still trying to find the means to finance the completion of in this country, I was particularly attracted to this map. I see on here a highway network and proposed highways. Is this an integrated plan developed in cooperation by all of the countries of South America?

Mr. COSTANZO. There has been general consultation among the countries, particularly with respect to the Inter-American Highway which is a part of the system shown here, going down the west coast and over to the east, connecting with Buenos Aires.

Mr. MCEWEN. It does not show a connection into the Darien Gap that we recently authorized.

Mr. COSTANZO. Yes, sir; that is something new that happened since this report was issued.

Mr. MCEWEN. Many of the pieces that are indicated under construction are not portions of the Inter-American Highway; is that correct?

Mr. COSTANZO. That is correct.

Mr. MCEWEN. Could you furnish to us figures exactly how much has been allocated to the portions of highway that will be part of the Inter-American Highway and how much has been allocated to other highways?

Mr. COSTANZO. I will be very happy to do that.

(The information follows:)

The Bank has loaned $130,400,000 to finance 3,262 kms, (1,957 miles) of the Pan American Highway in the period 1961 through 1970 in eight countries. The total cost of these projects including the local contribution is $260,-200,000. The Bank has made 38 loans in the field of road construction including the above in the amount of $516,856,000.

Mr. PASSMAN. Would the gentleman like to put in the record as part of his request, the appropriations made to this out of another spigot?

Mr. MCEWEN. Yes, I would.

Mr. PASSMAN. Here is $20 million that we list under one spigot. That does not work out of your appropriation. This is in addition to your operation: $20 million last year, $20 million this year and $20 million a year ago. Will you put in the record the total amount contributed to the highway out of the United States from the other spigots?

Mr. COSTANZO. Yes, sir.

(The information follows:)

DARIEN GAP HIGHWAY

The total cost of the Darien Gap Highway is projected at $150 million. Under the provision of the Federal Highway Act, the United States is authorized to contribute $100 million on a grant basis. Colombia and Panama are to make contributions amounting to one-third of the total project costs in their respective countries, i.e., $50 million.

A supplemental fiscal year 1971 appropriations bill for the Department of Transportation is currently before Congress requesting an initial appropriation of $5 million for the Darien Gap Highway project. The Department of Transportation plans to request an additional $20 million in its fiscal year 1972 budget request. Additional requests for appropriations would be made until the road is completed.

Colombia and Panama are expected to make their own arrangements with respect to financing their portion of the project. Colombia is expected to finance its share from domestic resources. Panama is expected to provide a portion of the funding from its own resources and to seek other external financing for the balance.

LOAN FOR WATER AND SEWERAGE

Mr. MCEWEN. That is not noted on this particular map, but Mr. Costanzo said that will connect. I also notice on page 9 of this report that you take credit for building or expanding 3,629 city and rural

water systems and 362 sewage systems. As of December 31, 1969, some 2,499 water and 268 sewage systems have been completed. Can you furnish us additional information as to the total cost of all of these water or sewage systems, those that are building or expanding, as well as those that are listed as being completed?

Mr. COSTANZO. Yes, sir; I can. I might say that much of this particular program was conducted with the Social Progress Trust Fund. One of the main fields of that fund was precisely in this area of water and sewage sanitation facilities.

(The information follows:)

Insert page 1176a

Loans for Water & Sewerage

as of June 30, 1970
(equivalent in millions of U.S. dollars)

Origin of Funds	No. of Loans	Total Cost of Projects	IDB Loans	
			Amount	Disbursement
Ordinary Capital	17	239.8	80.6	50.2
Fund for Special Operations	32	440.3	219.9	87.9
Social Progress Trust Fund	32	321.7	159.9	152.8
Swedish Funds	1	24.8	5.0	0.2
TOTAL	82	1,026.6	465.4	291.1

ENVIRONMENTAL PROBLEMS

Mr. McEwen. I am sure you gentlemen want to know why I am interested in this. I talked to Mr. Petty about some parochial problems I have in my district where two corporations are considering ceasing operations because they cannot meet standards on environmental conditions. I would not say the environment in other countries is not as important as that in the United States. I am interested, and that is why I am asking for these figures, in just what we are doing for environmental problems in Latin America at a time, sir, when we are not able and have not been able so far to adequately fund our own needs in this country.

Those figures, if you will furnish them for the record, would be possibly helpful, indeed.

Mr. Passman. The gentleman is making a most interesting case for us. If you will yield at this point, of course, you have more pollution in all probability per square mile in America rather than in Latin America because of the huge complex of refineries.

Mr. McEwen. Some say it is the effluent of affluence.

Mr. Passman. In all probability it would be impossible to judge, maybe we have a hundred times more pollution in this country on account of the tremendous industrial complex and the 120 million automobiles and trucks. So the pollution problem in America could conceivably be a hundred times greater than that in Latin America. It would not sound unreasonable, would it?

Mr. McEwen. Not at all.

Mr. Passman. If we cannot find an answer for our own pollution, because of lack of money, it looks like we ought to postpone temporarily some of the pollution problems in the other countries where they are not serious at this time.

Thank you for yielding.

Mr. McEwen. I yield back my time.

That is all I ask.

Mr. Passman. Mr. Hathaway.

STAFF LOANS

Mr. Hathaway. Thank you, Mr. Chairman. Pursuing the staff loan program a little further, are loans made to staff members who are also corporate executives of some company? In other words, are loans made to businesses where there are people with ranking positions asking for the money and also working for the Bank in any capacity?

Mr. Costanzo. No, sir.

This program is exclusively for staff hired by the Bank, and there is a prohibition that no member of the staff may have any other employment related in any other than the Bank. These are full-time Bank staff.

Mr. Hathaway. How about people on the Board of Directors?

Mr. Costanzo. The Board of Directors are full-time.

Mr. Hathaway. So nobody is excluded or is not in that position.

Mr. Costanzo. No.

CURRENCY QUESTIONS

Mr. HATHAWAY. Let me ask this: The hard window has all the contributions from all the countries in dollars and all the repayments are in dollars.

Mr. COSTANZO. No, sir. The Latin American contribution in paid in capital is half in dollars and half in their own national currencies.

Mr. PETTY. The United States has paid in $150 million. The Latin American countries have paid in $119 in dollars and $119 in local currencies.

Mr. HATHAWAY. But all of the loans are made in dollars and repaid in dollars.

Mr. COSTANZO. No, sir. Loans are made partly in local Latin American currencies and repaid in the same currency loaned.

Mr. HATHAWAY. What determines the ratio?

Mr. COSTANZO. It is usually a combination. It depends upon the nature of the project and its cost. If there are foreign exchange costs, then normally dollars would be provided. If there are costs that can be met locally, then local currencies are provided.

Mr. HATHAWAY. In the soft window everybody uses his own currency and the loans are made in the currency of the applicant country and repaid in the same currency.

Mr. CONSTANZO. In the soft window we also operate in a combination, usually dollars and local currency. The loans up to now have been repayable in the country's own currency. This is to be changed in connection with the new replenishment proposals; in the future loans made in dollars will be repayable in dollars.

Mr. HATHAWAY. When will that be?

Mr. COSTANZO. As soon as we get these funds and start lending them out.

RATIO OF CONTRIBUTIONS

Mr. HATHAWAY. Is the contribution to this in the same ratio as it was in the hard window as far as dollars versus local currency is concerned?

Mr. COSTANZO. No. At the present time the Latin American contribution is entirely in their own local currency.

Mr. HATHAWAY. The repayment period in the soft window is over a long period of time, such as 30 or 40 years.

Mr. COSTANZO. It has not gone that long. Normally it is 20 or 25 years.

Mr. HATHAWAY. Is any difference in the exchange rate taken into consideration in the repayment?

Mr. COSTANZO. Yes, sir. There is a fixed maintenance of value repayment in terms of dollars. So if the local currency depreciates they have to repay more.

Mr. HATHAWAY. If it appreciates, they pay less.

Mr. COSTANZO. Yes.

Mr. HATHAWAY. Presumably if your investment is wise, it will be appreciating rather than depreciating.

Mr. COSTANZO. That has not happened in Latin America.

Mr. PETTY. The currency of the country may not reflect the success of the individual country.

Mr. HATHAWAY. I understand that.
Mr. PETTY. History will show it depreciates at a very rapid rate.

AMOUNTS SPENT IN UNITED STATES

Mr. HATHAWAY. How much money is spent in the United States?
Mr. COSTANZO. In the ordinary capital the record is about 40 percent of the foreign exchange, or dollars have been spent in the United States. In the fund for special operations, in excess of 50 percent from the beginning. But there is something important to note here. At the beginning of the Bank our contribution to the fund for special operations was not tied. At a later stage we began tying our contribution to expenditures in the United States.
Currently and in the future the amount of those funds spent in the United States will increase. In the Social Progress Trust Fund, which is pretty much closed now, the expenditures in the United States were about 80 percent of the total. Those funds were tied to procurement in the United States and Latin American countries.

PRIVATE AND PUBLIC LOANS

Mr. HATHAWAY. Could you supply for the record the ratio of the public and private loans?
(The information follows:)

PRIVATE VERSUS PUBLIC SECTOR LOANS

Of the $4,156.8 billion of loans made by the Bank from its inception to March 31, 1971, $1,095.7 billion (26.4 percent) have been made to the private sector and $3,061.1 (73.6 percent) have been made to the public sector, primarily in the fields of transportation and communication, electric power, and agriculture.

INTEREST SUBSIDY

Mr. HATHAWAY. Part of the hard window is really a guaranteed loan figure.
What are the chances of extending that to make it more of a guaranteed loan program so we won't have to appropriate money as we have had to in the past? If you have the guarantee of the individual countries and you got the guarantee of the Bank in addition, that ought to free up a lot of private money for this type of loan, especially if you added to that an interest subsidy, which I do not know whether you are authorized to do or not.
Mr. COSTANZO. The Bank does not make guarantees. It does raise the bulk of its funds in the private capital markets against the callable capital which is the guarantee of the Government.
Mr. PETTY. It is in the form of an interest subsidy, because it has the credit standing of the U.S. Treasury. It gets a more preferential rate than what it would be if you operated in the two-step procedure.
Mr. HATHAWAY. Your prognosis is that the ratio of guaranteed loans would increase over the others.
Mr. COSTANZO. It has in the past in that the callable capital represents the bulk of the resources which the Bank has available for lend-

ing. Therefore, the bulk of the Bank's loans in the hard window represents the funds raised in the private capital market. Only the paid in capital, which is a relatively small share of the total, represents a direct input of Government funds. For example, on the basis of the replenishment which we are proposing, the structure of the Bank would be that the paid in capital would total $775 million, and the callable capital would total $3.9 billion. Of that latter amount the U.S. callable capital, which is what is actually used here, would be $1.7 billion. So it is better than a 2-to-1 ratio.

COVENANT REGARDING U.S. CALLABLE CAPITAL

Mr. PETTY. On the basis of the history so far the funded debt; which represents resources obtained in the world's capital markets, is equal to about 62 percent of the ordinary capital loans made. In our negotiations now to increase the membership of the Bank to include Western European donor countries, Japan and Canada, under one formula the U.S. share might drop from 42 down to 37 perecnt. Under a different variation perhaps even further. This would probably also result over time in increased leverage of relationship of funded debt to ordinary capital.

At the present time I think we should point out that the indentures covering the public borrowings limit the total amount of funded debt to the amount of the callable capital of the United States. This is done to obtain the triple A credit rating on the public bond market.

That convenant with the public bond buyers in no way limits the fact that the callable capital contributions of the other member countries is a joint and several guarantee pro rata with the United States. In terms of credit standing of the public market it is limited in the overall ceiling. Our policy over time, and it cannot be immediate because there are long-term bonds outstanding, is to recognize the credit standing of, say Mexico for what it is, worthy of private borrowing of its own.

Another feature of bringing in other donor countries as members is that such a move would make it possible to move away from the covenant. In the World Bank there has been that type of limit by tradition. As a matter of policy, we would like to see the U.S. limit the same to share the burden there, too.

Mr. HATHAWAY. In the soft window there is no such thing as a guaranteed loan program.

Mr. PETTY. No, sir.

Mr. HATHAWAY. Is it possible?

Mr. PETTY. The loans there have ranged from 3 to 4 percent interest. They have, in the past, been loaned in local currency and it would not support going out to the public bond market borrowing at 7 or 8 percent for 15 years to loan at 3 or 4 percent in foreign currency.

The design of this program really would not be consistent with having it done in the private sector.

Mr. HATHAWAY. Couldn't you do it along the lines of the student loan guarantee program, having enough money to guarantee the risk of losses of the loans and subsidize the interest?

Mr. PETTY. I have not thought that approach through. There is a leverage factor on the soft window and that is the contribution of the local country beyond the money that comes from the Bank. I would have to reflect on that suggestion, sir.

PROPORTION OF PROJECTS FINANCED BY IDB

Mr. HATHAWAY. What average percentage of a project do you finance? Is it limited by law?

Mr. COSTANZO. It is not limited. As a matter of general policy, 50 percent is normally financed by the Bank. This will vary with the nature and requirements of individual projects—in some cases the Bank finances more than 50 percent and in some cases less.

In general that is the range we look for.

Mr. HATHAWAY. The Bank always has the first lien.

Mr. COSTANZO. Yes, sir.

Mr. HATHAWAY. Is the entire economic situation of the area considered in making loans? If someone wants to put up an airplane factory and it is a country that does not have enough food to eat and somebody wants money for agricultural purposes, I suppose you would give priority to agricultural purposes.

Mr. COSTANZO. Yes, sir; we put heavy emphasis on that not only within the Bank but in connection with the Inter-American Committee of the Alliance for Progress (CIAP) which was set up to study overall country situations, programs, and priorities.

Each year they do a thorough country study and country review. We look to that exercise in setting the overall priorities within a country and region.

Mr. HATHAWAY. Thank you, Mr. Chairman. Thank you, gentlemen.

Mr. PASSMAN. Mrs. Reid.

AID USE OF IDB

Mrs. REID. Thank you Mr. Chairman. To what extent does AID use the Bank facilities for technical study, administration, and channeling of loans?

Mr. COSTANZO. AID has financed some projects in which the feasibility studies were financed by the Inter-American Development Bank. There are also a small number of projects which are joint projects between the Bank and AID, but the number of these projects are relatively small.

LOANS FOR EDUCATION

Mrs. REID. Are any loans being made by the Bank for educational purposes? If so, what countries have benefitted the most from such loans?

Mr. COSTANZO. I would like to supply that for the record if I may.

(The information follows:)

Loans made to countries from 1961 to December 31, 1970, for education:

Argentina	$42,200	Mexico	$3,496
Bolivia	2,365	Nicaragua	
Brazil	32,000	Panama	4,100
Chile	18,255	Paraguay	1,500
Colombia	21,700	Peru	8,034
Costa Rica	1,370	Trinidad and Tobago	
Dominican Republic	778	Uruguay	4,500
Ecuador	2,479	Venezuela	2,500
El Salvador	2,000	Central America	2,914
Guatemala	9,500	Regional	2,000
Haiti	1,300		
Honduras	2,800	Total	150,091
Jamaica	4,700		

FSO CONTRIBUTIONS AND EFFECT ON U.S. BALANCE OF PAYMENTS

Mrs. REID. Since the U.S. contributions to the Fund for Special Operations is tied to purchase of goods and services in the United States, is there less effect on our balance-of-payments position?

Mr. COSTANZO. U.S. contributions to the Fund for Special Operations are tied to the purchase of goods and services in the United States, the borrowing country, or, if advantageous, to any other member country. This system lessens the effect on our balance of payments.

U.S. PERSONNEL EMPLOYED

Mrs. REID. What is total number of U.S. personnel employed in the Bank in Washington?

Mr. COSTANZO. As of December 31, 1970, there are 185 U.S. nationals of the total 996 employees in the Bank in Washington. Of the Bank's 62 employees in its field offices, five are U.S. nationals.

HIGHWAY MAINTENANCE PROVISIONS

Mrs. REID. In your lending programs on highways, for instance, in providing funds for construction, do you also make sure there are provisions for maintenance?

Mr. COSTANZO. All road contracts contain standard clauses obligating the borrower to submit to the Bank an annual maintenance plan for 10 years subsequent to the completion of the project in accordance with the following:

MAINTENANCE CLAUSE

a. Maintenance shall be defined as keeping the road with all its component parts in substantially the same conditions as it was when originally constructed.

b. An annual maintenance plan shall be submitted for the approval of the Bank not later than 3 months before the beginning of each budget year; it shall include as a minimum the details of the organization to be responsible for the maintenance, the personnel to be provided, the number, type, and condition of the equipment to be provided for maintenance; the location, size and condition of the shops, warehoused maintenance camps, etc.; and the type of control to be used to limit the size and weight of vehicles operating on each road; the number of kilometers of each type of road to be maintained and the location of these roads, etc.

c. The plan will show the funds available in the maintenance budget (exclusive of betterment operations) for the current year and include the amount of the proposed budget for the year for which the plan is submitted.

d. The plan will also include a report of the status of maintenance based on a maintenance sufficiency rating system previously submitted to and approved by the Bank. This sufficiency rating will be devised to provide a composite rating of road maintenance condition based on numerical rating of the different components of the road, such as surface, shoulders, ditches, drainage structures, bridges, etc.

e. The Bank will have the right to periodically inspect the roads in the field. If it is determined by the inspection or the reports that the maintenance effected is below the agreed standards, the borrower agrees to take corrective action.

Mr. REID. That is all I have, Mr. Chairman.

Thank you.

IDB STATISTICAL MATERIALS

Mr. PASSMAN. You are familiar with these very voluminous statistical statements the Bank gets out. How often do they come out, monthly?.

Mr. COSTANZO. We have a statement of individual loans.

Mr. PASSMAN. These weigh maybe two or three pounds. They are about as long as a triple entry bookkeeping journal.

Mr. COSTANZO. Monthly.

Mr. PASSMAN. How many pages is that? I am not being critical.

Mr. COSTANZO. There is one for each window of the Bank.

Mr. PASSMAN. What you send out is this package?

Mr. COSTANZO. Yes.

Mr. PASSMAN. Wouldn't you assume if I did not have anything to do but read that statement that it would take just about all of my time to analyze it?

Mr. COSTANZO. It would take a good deal of time, yes, sir.

Mr. PASSMAN. I have 65,000 to 70,000 letters a year, I have to legislate, go home, eat, sleep, and politic. How many copies of that do you put out per month?

Mr. COSTANZO. I do not know.

Mr. PASSMAN. Several thousand?

Mr. COSTANZO. No.

Mr. PASSMAN. Do you send each Member of Congress——

Mr. COSTANZO. No.

Mr. PASSMAN. Just the committees?

Mr. COSTANZO. Yes.

Mr. PASSMAN. Couldn't you have a condensed form for members of the committees? It may be necessary to get this up. I am not critical because I kept books too long and I believe in good records. If you could show new loans approved, disbursements, and so on. Maybe a single page with some analysis where the members actually could digest it.

(Discussion off the record.)

Mr. COSTANZO. Mr. Chairman, these are very important for internal purposes.

Mr. PETTY. This is a good statement, Mr. Chairman.

Mr. PASSMAN. I am not asking that you discontinue it, but if you will, send it to the committee by room number so all members of the committee can examine it. Do you send it just to the chairman?

Mr. COSTANZO. Yes.

Mr. PASSMAN. Please send it to the room of each member and if they have any spare moments, they can have a look at the statement.

Mr. COSTANZO. Surely.

PRESIDENTIAL STATEMENT ON UNTYING AID

Mr. PASSMAN. You are familiar with the President's message to the Congress dated September 15, 1970, if I may refer to page 3 of that message:

> I propose we move promptly toward initiation of a system of tariff preferences for the exports of manufactured products of lower income countries in the markets of all the industrialized countries.
>
> I am ordering the elimination of those tying restrictions on procurement which hinder our investment guarantee program in its support of U.S. private investment in the lower income countries.
>
> I propose that all donor countries take steps to end the requirement that foreign aid be used to purchase goods and services produced in the nation providing the aid. Complete untying of aid is a step that must be taken in concert with other nations; we have already begun discussions with them toward that end. As an initial step, I have directed that our own aid be immediately untied for procurement in the lower income countries themselves.

Are you people operating under this? Have you completely untied your procurement? Are you familiar with this message?

Mr. COSTANZO. In a general way.

(Discussion off the record.)

Mr. PASSMAN. Back on the record.

To what extent are you untying, if any, these loans on American commodities?

Mr. COSTANZO. We are maintaining in the Fund for Special Operations the restriction that our contribution may be used for purchases in the United States and other member countries. This has always been the case.

Mr. PASSMAN. That I understand perfectly. I would suggest, gentlemen, that you read this message to the Congress where he says specifically that he is ordering it.

Would you do that and put something in the record, to save a lot of time?

Mr. PETTY. I would like to comment that particular quotation referred to the bilateral aid program. There were issued instructions in October of last year with respect to the procurement with lesser developed countries. On the application of it to other donor countries the negotiations are still underway. One of the features of it is to make sure that the other donor countries do the same thing the same way, so that our suppliers would have access to their own program. If that is not negotiated, that part will not be implemented.

Mr. PASSMAN. I shall not quote out of context, but I will insert this one sentence:

> As an initial step, I have directed that our own aid be immediately untied for procurement in the lower income countries themselves.

Certainly there would be more justification—I am not saying you have any—to untie any restrictions on this multilateral approach between the nations and between the United States, simply because we know that we have priced ourselves out of the world market. Many of these people are buying their purchases abroad, and I believe this procedure is on the increase. You made the statement this applied only to bilateral aid.

Again it would appear to me it would be more appropriate, if appropriate at all, to untie it on the multilateral side than it would

on the bilateral side because of the complex dealings you have to have with these developing countries.

Mr. PETTY. Also, the rule we are following on multilateral aid is that member countries share in the procurement of the funds of the institution. Nonmember countries do not get the preferred access to our taxpayers' appropriated resources.

Mr. PASSMAN. It was not my purpose to get into a hassle. I only know what the President said in his message, and I quoted it directly.

I wish that you would put something in the record as to why you are not part of this statement, or you would not come under the provisions of the Presidential order, because he said he had initiated the request already. I would assume it is in effect.

You admit you have not had any familiarity with it.

Mr. PETTY. I am quite familiar with it.

Mr. PASSMAN. It is nice you are familiar with it.

You are cooking in every kitchen. Chances are you will be here tomorrow for the World Bank.

Mr. PETTY. It will be my pleasure.

Mr. PASSMAN. We have to talk to these people who make decisions. You are a nice fellow with a nice job backing them up with experience, but we have to talk to the people who make the decisions. Inasmuch as you said you are not familiar with it, familiarize yourself Mr. Director and put something in the record, will you?

Mr. COSTANZO. This applies to general policy going far beyond this Bank.

I should say I have read that. I am generally familiar with it.

Mr. PASSMAN. Didn't you tell me you had a general knowledge but you did not know it?

Mr. COSTANZO. Generally, but it affects matters going far beyond me.

Mr. PASSMAN. I am not quarreling or debating. I am only asking if you would read it and look at the direct quotes and my question would be, does this apply to the Inter-American Development Bank?

Mr. PETTY. No, sir; it does not.

Mr. PASSMAN. Then put something in the record, my dear friend. Will you do that?

(The information follows:)

UNTYING AID

The quoted sentence from the President's Foreign Aid Message of September 15, 1970, appears in the summary section early in that message. A more detailed treatment of the subject appears near the end of the message in section 3, entitled "Promoting Effective Development Through Improved Economic Policies." In that section, the subject is treated as follows:

"In the expectation that negotiations will soon be completed successfully, I have decided to permit procurement now in the lower income countries *under the U.S. bilateral lending program*—an expansion of the initial step I took with our Latin American neighbors." (italics supplied)

It is thus clear that the policy stated by the President was by its terms directed to the U.S. bilateral program, and not to multilateral programs.

Mr. PASSMAN. Now before we drop the curtain, I am much more pro-Latin America than some of you gentlemen realize. I think it is a must that we help them, in order for these Latin American countries to develop. But I can tell you the best children that you find in America

are those who had parents who were very firm. They were disciplinarians. They used good discipline. I would like to see us say specifically, categorically and to the point, that here is what we will do, but before we do it you have to do this. We are going to have to make the record and start doing these things.

(Discussion off the record.)

Mr. PASSMAN. I have these final two questions. Of the U.S. paid-in capital to the Inter-American Bank, I think we referred to it as $150 million, is that correct?

Mr. COSTANZO. Yes.

Mr. PASSMAN. All of the other countries, and I guess there are 22 of them, is that correct?

Mr. COSTANZO. Twenty-two, yes.

Mr. PASSMAN. The 22 have paid in $119 million?

Mr. COSTANZO. In dollars.

Mr. PASSMAN. But the 22 countries are recipients of their contributions and also ours, is that correct?

Mr. COSTANZO. That is right.

Mr. PASSMAN. So the ones that paid in they get it back plus our $150 million. All we do is make the contribution and hope in the long run it is a good investment; not investment in dollar return but investment in good neighbor policy and helping the underprivileged to acquire higher status, is that true?

Mr. COSTANZO. Yes, that is true.

Mr. PASSMAN. Thank you, gentlemen. The committee will recess until tomorrow.

TUESDAY, MARCH 30, 1971.

RYUKYU ISLANDS, ARMY ADMINISTRATION

WITNESSES

LT. GEN. JAMES B. LAMPERT, HIGH COMMISSIONER OF THE RYUKYU ISLANDS

BRIG. GEN. CLARKE T. BALDWIN, Jr., DIRECTOR, INTERNATIONAL AND CIVIL AFFAIRS, OFFICE DEPUTY CHIEF OF STAFF FOR OPERATIONS

RICHARD A. ERICSON, 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

EDWARD J. McLAUGHLIN, INTERNATIONAL AND CIVIL AFFAIRS, DIRECTORATE, OFFICE DEPUTY CHIEF OF STAFF FOR OPERATIONS

J. C. PAMPLIN, MILITARY FUNDS DIVISION, OFFICE, COMPTROLLER OF THE ARMY

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 esti	1972 est
Program by activities:			
Administration	3,400	3,301	3,200
Aid to the Ryukyuan economy	17,491	3,369	1,250
Total obligations	20,891	6,670	4,450
Financing: Unobligated balance lapsing	11		
Budget authority	20,902	6,670	4,450
Budget authority:			
Appropriation	18,991	6,476	4,450
Pay increase (Public Law 91-305)	50		
Proposed supplemental for wageboard increases		96	
Proposed supplemental for civilian pay act increases		98	
Reappropriation	1,861		
Relation of obligations to outlays:			
Obligations incurred, net	20,891	6,670	4,450
Obligated balance, start of year	6,792	9,357	1,740
Obligated balance, end of year	−9,357	−1,740	−320
Adjustments in expired accounts	−228		
Outlays, excluding pay increase supplemental	18,998	14,111	5,852
Outlays from wage-board supplemental		87	9
Outlays from civilian pay act supplemental		89	9

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 est.	1972 est.
DEPARTMENT OF THE ARMY			
Personnel compensation:			
Permanent positions	2,007	1,835	1,402
Positions other than permanent	19	8	5
Other personnel compensation	105	286	688
Special personal service payments	649	636	523
Total personnel compensation	2,780	2,765	2,618
Personal benefits: Civilian employees	220	217	181
Travel and transportation of persons	318	209	75
Transportation of things	56	101	117
Rent, communications, and utilities	57	51	47
Printing and reproduction	9	3	3
Other services	1,914	1,080	116
Supplies and materials	184	169	39
Equipment	74	3	
Grants, subsidies, and contributions	15,257	2,068	1,250
Total, Department of the Army	20,869	6,666	4,446
ALLOCATION TO UNITED STATES INFORMATION AGENCY			
Other services	22	4	4
Total obligations	20,891	6,670	4,450
PERSONNEL SUMMARY			
Total number of permanent positions	319	248	174
Full-time equivalent of other positions	4	1	1
Average number of all employees	318	257	181
Average GS grade	9.7	9.6	9.6
Average GS salary	$13,741	$13,809	$13,849
Average salary of ungraded positions	$2,990	$3,351	$3,396

Note:—After the budget was submitted, H. Doc. 92-93 was transmitted to Congress which contained an amendment of $114,000 for increased pay costs for FY 1972.

Mr. PASSMAN. The committee will be in 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, and many fine supporting witnesses whose names appear above.

I would assume, General Lampert, that you have a statement you would like to make to the committee.

General LAMPERT. Yes; I do.

Mr. PASSMAN. Fine. You may proceed.

GENERAL STATEMENT OF THE HIGH COMMISSIONER OF THE RYUKYU ISLANDS

General LAMPERT. Mr. Chairman and members of the committee:

I am happy to appear before the committee for the third time to report on our administration of U.S. responsibilities in the Ryukyu Islands.

When I appeared before the committee last year, I described the situation in Okinawa and the outlook as we then saw it. Events have largely borne out what I said at that time. In my travels throughout the Ryukyu Islands, I continue to observe a gratifying fund of goodwill toward the United States and acceptance of the presence of our

military bases. U.S. authorities have maintained a workmanlike relationship with the local government of the Ryukyu Islands and its elected chief executive, Mr. Chobyo Yara, who retains wide support among the Okinawan people. A vocal and militant minority has continued to exploit irritations and anxieties arising from the presence of our bases. Political demonstrations and strikes have taken place from time to time. Various problems, especially in our labor relations with our Okinawan base employees, have required careful attention. Our military bases, however, have at all times been able to carry out their assigned missions and their key role in the U.S. defense posture in the Pacific. We have also been able effectively to discharge U.S. responsibilities for the administration of the Ryukyus which we will continue to bear until reversion takes place. The Government of Japan has played a helpful role. The official Japanese delegation in Okinawa has worked closely with U.S. authorities in the Preparatory Commission to develop arrangements that will insure a smooth and orderly transfer of civil authority to Japan upon reversion.

We continue to expect that reversion will take place in 1972, although we do not yet know the effective date. This will depend on the outcome of the reversion negotiations being handled at the diplomatic level in Tokyo.

We expect that after reversion our military bases on Okinawa will be governed, as is the case with our bases in Japan proper, by the existing Treaty of Mutual Cooperation and Security with Japan and by its related arrangements including the Status of Forces Agreement.

For fiscal year 1972, we are requesting $4,450,000, of which $3,200,000 is for our Civil Administration operating costs and $1,250,000 is for aid for the local Ryukyuan Government's public safety activities, in particular the police.

PRESENT SITUATION IN OKINAWA

As the time of reversion approaches, but with negotiations not as yet completed, the political atmosphere is marked by uncertainties and anxieties in the minds of the Okinawan people as to what the future holds in store. I believe it is correct to say that the Okinawan people are gratified that reversion is coming, but worried about its effect on them personally. Our Okinawan base workers have again reacted strongly to new and substantial reductions in personnel resulting from the reduction in the U.S. defense budget. Two strikes, each of 48 hours duration, took place on February 10 and 11 and March 2 and 3 of this year. Political problems have also arisen from incidents involving U.S. personnel and Okinawans. These stimulate feelings of resentment toward continued U.S. court jurisdiction over U.S. military personnel. These resentments contributed to the Koza riot of December 20, 1970. In addition, in January 1971, we had difficulties in arranging for the initial shipment in the removal of chemical weapons from Okinawa, largely because of fears on the part of Okinawans living along the removal route that their safety might be endangered. Militant elements opposed to our bases seek to exploit these and other problems that arise. The activities of these groups place greater requirements on U.S. and local police authorities who are responsible for the maintenance of order and the security of our bases and personnel.

While the Okinawan economy and standard of living has continued to grow, they remain heavily dependent on our military bases and other outside support. The Government of Japan, looking toward reversion, has substantially increased its aid to Okinawa to a projected level of $166.7 million for the coming year compared with $106 million in the current year.

Recent U.S. military force realinements in the Pacific have brought about some changes, including some reduction in the military units stationed in Okinawa. Okinawa remains, however, the location of an extensive complex of valuable bases including Kadena Air Base, the Army's 2d Logistical Command, the 3d Marine Division, and major communications facilities.

BUDGET REQUEST

This year, we are requesting $1,250,000 for economic aid in fiscal year 1972. This consists of but one item—reimbursement to the Government of the Ryukyu Islands for public safety operations performed on behalf of U.S. military forces and their dependents in the Ryukyus. All other items of economic aid have been deleted from our budget request.

Public safety services provided by the local government include: control of rallies, demonstrations, and other civil disturbances; enforcement of traffic and safety regulations; operation of penal and correctional institutions; immigration services; and other related activities. We rely heavily on the Ryukyuan police during civil disturbances. They are increasingly effective in controlling these disturbances, and they are thus of great assistance to us.

We are also requesting $3,200,000 for administrative activities. The bulk of this is for pay of personnel. At the end of fiscal year 1970, our USCAR organization included 28 military, 107 U.S. civilians and 193 Ryukyuan employees. By the end of fiscal year 1971, these figures are expected to be 23 military, 107 U.S. civilians, and 133 Ryukyuans, respectively. At the end of fiscal year 1972, based on assumption with respect to the reversion date, we expect these figures to reach zero.

The funds requested do not fall off as rapidly as the number of employees. This is caused by unavoidable terminal payments, including severance pay for both Ryukyuan and U.S. employees, and transportation costs back to the United States for separated U.S. citizen employees. The cost of these terminal payments is estimated at $900,000 during fiscal year 1972.

GENERAL FUND

The USCAR General Fund, as the committee knows, derives an income of approximately $13 million per year, mostly from sale of petroleum products in the Ryukyus. This fund is used for projects to assist the Ryukyuan people.

As explained in the President's budget statement (p. 372), we expect to utilize $31,450,000 of anticipated general fund available moneys for such purposes in the remainder of fiscal year 1971 and through fiscal year 1972. It is planned that this fund will be closed as of

June 30, 1972, although the final date also depends on the reversion date which has not yet been established.

SUMMARY

We expect that our military bases will remain on Okinawa and play a key role in our defense posture and in the defense of our allies in the Pacific for an undetermined number of years to come. The funds which we are requesting are, in my judgment, required to enable us to fulfill our responsibilities for the administration of the Ryukyus until reversion. They will enable us to make an orderly transfer of civil authority to Japan, and they will help insure a continued stable and favorable environment for the continued operation of our military bases in the years ahead.

FIVE-MINUTE RULE

Mr. PASSMAN. Thank you, General. We will operate this afternoon under the 5-minute rule. After each member has had an opportunity to interrogate the principal witness for 5 minutes, then we shall revert back to the system we previously agreed upon, and each member will use all the time necessary for him to interrogate the witness.

The High Commissioner of the Ryukyu Islands wears a dual hat. This committee is interested in all of his problems, but as far as financing is concerned, our responsibility is limited only to the economic aid part of the Ryukyu Islands and that is the request before the committee.

At this time I yield to the distinguished gentleman from Maryland, Congressman Long.

RYUKYUAN ATTITUDE TOWARD UNITED STATES

Mr. LONG. General Lampert, I spent some time on Okinawa about 6 or 7 years ago. We were told that United States-Okinawan relations were pretty good. I see you still maintain this is true. Yet we have been reading very different things in the newspapers. Do you feel a vocal and militant minority is demonstrating and causing disorder and that there is no fundamental problem with the people on Okinawa that will jeopardize our long-run tenure?

General LAMPERT. Mr. Long, as noted in my prepared statement, I do continue to believe the population of the Ryukyus entertain a considerable amount of good will toward us as individuals and harbor little or no hostility toward the United States and toward our administration there.

There is a minority made up of diverse activist groups which takes every opportunity to capitalize on issues that come along for various reasons which appear to motivate these various groups. This results in demonstrations, disorders from time to time, which we do take very seriously and which we try to handle as calmly and as carefully as we can. I am aware sir, that from time to time these developments——

Mr. LONG. Isn't it always true that minorities end up by making situations untenable?

I remember that President Johnson was forced to give up running for the Presidency because of a very small minority—it made life so miserable that he finally changed his plans. Couldn't that happen to us in Okinawa?

General LAMPERT. I am certain that history would demonstrate that has happened in many places.

Mr. LONG. When I was at Princeton before World War II, I listened to a speech by Albert Einstein. He said if 2 percent of the population set out to close anything down, no society can function. I am beginning to believe the minority is smaller than that if it is really determined. Can we afford to be as optimistic as you are about Okinawa?

General LAMPERT. Maybe I can put it this way: I believe we can continue to live in Okinawa and operate our military bases satisfactorily and effectively for the foreseeable future as long as our Government wants us to remain there. I would not attempt to predict the number of years in which that situation would continue.

U.S. INVESTMENT IN RYUKYUS

Mr. LONG. What is our investment there?

General LAMPERT. We have invested in physical facilities nearly $700 million over the years since we have been there.

Mr. LONG. Is that our total investment?

General LAMPERT. If you count all of our aid expenditures on top of the physical facility construction, approximately $1 billion. Let me correct that figure—$680 million in constructed facilities which the military forces occupy, and about $300 million more in economic aid.

Mr. LONG. So it is about a billion dollars.

General LAMPERT. Yes.

Mr. LONG. Are we pursuing a policy of being cautious about putting more money into Okinawa until the picture is reasonably clear?

General LAMPERT. Yes, sir; of course, we expect to close out our administration of the civil government in 1972. There is no contemplation of any economic assistance after that date. There has been no significant amount of new military construction in the 2 years that I have been there.

ALTERNATIVE WESTERN PACIFIC BASE LOCATIONS

Mr. LONG. If we are forced out of Okinawa, do we have a good fallback position, or are we going to be in a bad jam?

General LAMPERT. These questions are really out of my bailiwick. I am informed generally but they are not within my area of responsibility.

Mr. LONG. I probably have used up my time, Mr. Chairman.

Mr. PASSMAN. I want to thank the distinguished gentleman from Maryland. He always makes a good case. He was just getting to the point where he could make a good record but we are operating under the 5-minute rule which limits members to about one question and one long answer.

Since we cannot do anything about it and they are the rules we will abide by them and return later so the distinguished gentleman can finish his questions.

Mr. LONG. Mr. Chairman, you are the first to object to my quitting after 5-minutes of questioning.

ANTICIPATED REVERSION DATE

Mr. SHRIVER. On page 5 of the statement you say you expect the administrative personnel figure to reach zero by the end of fiscal 1972.

General LAMPERT. Yes, sir.

Mr. SHRIVER. Aside from terminal payments, do you expect to be back here next year requesting funds for administration costs?

General LAMPERT. So far as I now know I do not expect to be back next year requesting additional appropriations. I should say that the agreement between the President and the Prime Minister of Japan for the reversion to civil government states that it is expected that the transfer of the civil government will take place in the calendar year 1972.

(Discussion off the record.)

General LAMPERT. If the actual reversion date should be in the latter part of 1972, this would be into fiscal 1973. I just have no information which would permit me to be specific on that.

FUNDS FOR PUBLIC SAFETY ACTIVITIES

Mr. SHRIVER. Would funds for public safety be needed in view of the continuing presence of U.S. forces?

General LAMPERT. We do not believe so, sir, because the police forces and public safety will become the responsibility of the Government of Japan.

Under our Mutual Security Treaty the Government of Japan is obligated to take care of the public security outside of our bases.

U.S. FORCE REDUCTION ON OKINAWA

Mr. SHRIVER. On page 4 of your statement you mention the reduction of our forces in Okinawa as part of the overall realignments in the Pacific. Can you tell us more about that reduction? What is anticipated in the future?

General LAMPERT. Sir, the reductions scheduled for the future I am not informed about. The reductions which have taken place in the past year in Okinawa have been measurable but not extremely large.

Our anti-aircraft defense organization, which is an army unit has been reduced in strength by about 60 percent. The MACE missiles which were maintained in Okinawa by the Air Force were removed slightly more than a year ago. There have been certain reductions in the last couple of months in Air Force flying units in Okinawa, offset to some extent by the introduction of additional aircraft moved down from Japan. Beyond that, in my statement I was referring to certain additional reductions which I am sure the committee knows more about than I, which have been announced to take place in Japan and in Korea, and of course the progressive reduction in the strength in Vietnam.

OTHER ASSISTANCE TO THE RYUKYUS

Mr. SHRIVER. Do we have any other assistance programs in the Ryukyus for fiscal 1972, such as food programs?

General LAMPERT. The Food for Peace Program will continue until the end of our tenure estimated to be in 1972. We do, as explained in the printed Budget, plan to continue until the end of our tenure an economic assistance program funded from our General Fund, which is the fund generated primarily by our sale of petroleum products to the local economy. Those are the only American programs underway or visualized. I am sure you know that the Government of Japan is carrying on a very large economic assistance program and has for several years.

Mr. SHRIVER. So you do not expect that an economic assistance program will continue after reversion?

General LAMPERT. I do not expect that it will, and I have no knowledge that one is planned.

ADMINISTRATIVE ACTIVITIES BUDGET REQUEST

Mr. SHRIVER. I notice on page 3 of the justification book that while your program level has been reduced by 80 percent over the past 2 years, the administrative costs have gone down only 6 percent. Would you comment on that?

General LAMPERT. Yes, sir.

The administrative costs are almost entirely the personnel costs associated with our civil administration organization, which is the civil government advisory organization.

The costs of that organization are not directly proportionate to the size of our economic assistance program because many of the people in the organization are concerned with advising going activities and departments in the Ryukyu Government. For example, the element in our organization which advises and works with the police. Beyond that we are increasingly occupied in working on the planning for the transfer of the Government, not only with the Ryukyuan Government but with the representatives of the Government of Japan. This consumes a great deal of our people's time. The final thing I would say, sir, is that about $800,000 of the administrative costs contained in our request are for termination costs associated with our employees who will in fact be separated from the rolls. This is the transportation back to the United States for American employees who are entitled to it, separation pay for American and Ryukyuan employees who are separated and certain associated costs.

RYUKYU TRAVEL UNIT

Mr. SHRIVER. You are requesting $15,000 for severance payments to to Japanese nationals employed by the Ryukyu travel unit.

General LAMPERT. Yes, sir.

Mr. SHRIVER. What is the purpose of this unit?

General LAMPERT. That is a small office belonging to us which is located in Tokyo. As part of the administration of our responsibility,

we validate all requests by people other than American citizens for entrance into the Ryukyus.

People who wish to come to the Ryukyus from Japan, and these are mostly Japanese citizens, do this by applying to this small office which we maintain in Tokyo. That office is in part staffed by Japanese citizens.

SEVERANCE PAY

Mr. SHRIVER. So that severance goes to the Japanese.

General LAMPERT. Yes.

Mr. SHRIVER. Do we pay severance to U.S. nationals who are leaving due to reversion ?

General LAMPERT. Yes, sir; under the civil service laws and regulations we do to all of those who have the appropriate rights.

Mr. SHRIVER. I think I have used my time.

Mr. PASSMAN. Thank you, Mr. Shriver. Mr. Roybal?

Mr. ROYBAL. General, along the same lines, the severance pay would be included in the estimate you have made which is $900,000 during the fiscal year 1972, is that correct?

General LAMPERT. That is correct and I thank you for correcting me.

I believe I said $800,000 a minute ago. I should have said $900,000.

USCAR GENERAL FUND PROGRAM

Mr. ROYBAL. I am also interested in the statement made on page 6 where you say that the USCAR general fund derives an income of approximately $13 million per year and this fund is used for projects to assist the Ryukyuan people.

General LAMPERT. Yes, sir.

Mr. ROYBAL. What kind of assistance do they get?

General LAMPERT. This is economic assistance. This fund has over the years supplemented the directly appropriated economic assistance projects paid for by the appropriations which we have sought. For example, in the period between now and reversion the largest expenditures will be to complete a very large water supply dam in northern Okinawa in which we expect to spend $7,790,000 in the remainder of this fiscal year and fiscal year 1972. We expect to obligate $3,300,000 to complete our share of a modern sewage disposal system which we have been constructing for the past several years in southern Okinawa, the heavily populated part. We expect to obligate approximately $15,500,000 to continue construction of one major highway badly needed in Okinawa which has been underway for several years and to extensively repair one of the important secondary highways. Those are the principal items included in this program, sir. There are a number of others which I would be glad to mention.

Mr. ROYBAL. This is in addition to the $1,250,000 that is appropriated for economic aid.

General LAMPERT. Yes, sir.

Mr. ROYBAL. So the figure for economic aid is in excess of $14 million.

General LAMPERT. Yes, sir. In the last 2 years, fiscal 1971 and 1972 we expect to obligate about $31 million from this General Fund on

economic assistance program. To that will be added the $1,250,000 contained in our request now before the committee.

Mr. ROYBAL. The $13 million you get from petroleum products is not included in the request you are making.

General LAMPERT. That is correct, it is not part of the $4.450 million. However, it is reported in the President's budget document.

Mr. ROYBAL. This is in addition to the request.

General LAMPERT. That is correct.

FUTURE OF POL INCOME

Mr. ROYBAL. What will happen to this income once the reversion takes place? Who will handle it?

General LAMPERT. The income comes primarily from the importation of petroleum products which we, the civil administration, sell through local distributors. At the end of our tenure this activity will cease entirely. It will be replaced, I presume, by the normal petroleum marketing distribution system prevailing in Japan, since Okinawa will become part of Japan. This will be the responsibility of the Japanese Government and no longer our responsibility.

Mr. ROYBAL. It is quite possible that the people of the island will not be recipients of the type of help they are getting at the present time.

General LAMPERT. That is possible, although the pattern of Japanese economic assistance to Okinawa so far has been very generous and I would expect that it would continue.

RYUKYUAN ATTITUDE TOWARD THE JAPANESE

Mr. ROYBAL. I have one last question.

Do the natives of the islands get along well with the Japanese?

General LAMPERT. Sir, I hesitate because the short answer is not yes. The answer I believe is they get along quite well with the Japanese but there are tensions between them which relate to their history. Mr. Ericson is Foreign Service officer, and he is here and he may wish to add to that. He has lived and served in Japan and is intimately familiar with it.

Mr. ERICSON. I think the short answer is that the Okinawans are Japanese.

Mr. ROYBAL. They don't think so.

Mr. ERICSON. Before the war, as you are aware, Okinawa was a prefecture of Japan and the Okinawans were citizens of Japan. I would agree with General Lampert, they have some reservations about the strength of this commitment. But it is the only one that is open to them and I think most of them do regard themselves as Japanese.

Mr. ROYBAL. Mr. Chairman, my understanding is that there is quite a bit of conflict between the two groups. While I was in Okinawa I was told that a conflict existed, that the natives of the islands would rather not be under the domination of the Japanese. I think we can go into this as we go along in the hearings because my time has expired.

Mr. ERICSON. I would be happy to.

Mr. PASSMAN. Mr. McEwen.

Mr. MCEWEN. Thank you, Mr. Chairman.

JAPANESE ECONOMIC ASSISTANCE TO THE RYUKYUS

Mr. McEwen. General, on page 4 of our statement, you refer to to the level of assistance from Japan which is projected at $166.7 million for the coming year compared to $106 million in the current year. When did Japan start giving aid to Okinawa?

General Lampert. I believe about 1962, sir.

Mr. McEwen. It was prior to the time of the talks returning the Ryukyus back to Japan?

General Lampert. Yes, sir, that is correct. May I correct that date when I have had an opportunity to verify it, please, sir?

Mr. McEwen. Yes, indeed.

General Lampert. I am informed that the first year in which there was a Japanese contribution was 1959, when there was a small Japanese economic assistance contribution. It has grown steadily through the years.

Mr. McEwen. What is the form of that assistance?

General Lampert. In the current year, when the total is $106 million, about $25 million is in the form of loans and the remainder in the form of grants. It is used for a wide variety of purposes.

Mr. McEwen. For public works?

General Lampert. Yes, sir.

I have some examples here. Various types of public works related to industrial development and land development. A wide variety of social welfare programs of various types. For tuberculosis control, mental health activities, the provision of Japanese doctors, contributions to hospitals, and contributions to welfare.

There is a large contribution to education, including a subsidy of nearly $17 million to public school teachers' salaries; money for the construction of schools, for many educational activities of various kinds. There is a large amount for direct financial assistance to municipalities, and a large number of rather small programs which have been included in this total. I have a list here of the aid program as we now know it for the fiscal year which lies ahead, which has something on the order of 137 separate projects.

Mr. McEwen. Is this in a table that you have at this time prepared?

General Lampert. Sir, it is in some data which I brought along which we secured from the local office of the Japanese Government in Naha.

Mr. Passman. Without objection, we would like to insert the entire statement in the record so we will have a better understanding of the matter.

(The information follows:)

Aid Program From the Government of Japan to the Ryukyu Islands in Japanese Fiscal Year 1971 (Fiscal Year 1972)

Grand total	$166, 722, 682
A. General aid funds	118, 667, 126
I. Government operational expense	15, 288, 889
1. Government operational expense	15, 288, 889
II. Industrial promotion and national land development	12, 688, 575
2. Agricultural land development	744, 403
3. Agricultural facility	291, 667

Iudustrial promotion and national expense—Continued	
4. Forest development expense	$222, 500
5. Government road construction	483, 933
6. Piers, harbors and fishing ports	3, 620, 439
7. Mountain conservation and flood control	170, 100
8. Retaining walls	144, 700
9. City planning activity	474, 292
10. Highway survey	5, 556
11. Model farm	42, 306
12. Livestock improvement	326, 672
13. Agriculture structure improvement	49, 200
14. Agricultural product distribution facility	13, 100
15. Plant quarantine measure	17, 903
16. Coastal fishery promotion	99, 614
17. Sugar cane production encouragement activity	106, 000
18. Small-medium industry guidance	54, 333
19. Funds for small-medium industry modernization loan, special account	277, 778
20. Small-medium industry elevation fund	342, 428
21. Small-medium industry credit guarantee expense	83, 333
22. Small-medium industry equipment loan system	83, 333
23. Small-medium industry hall	91, 667
24. Okinawa agricultural development experimentation activity	294, 683
25. Fishery research center	59, 722
26. Bagasse feed development	6, 250
27. Cattle tick extermination	177, 561
28. Farm household basic ledger preparation	16, 494
29. Agricultural-fishery cooperative employee's training office	63, 889
30. Agricultural census	158, 333
31. Industrial complex site land reclamation survey	13, 986
32. Industrial statistics survey	7, 956
33. Government certified nursery	5, 556
34. Naha Airport improvement	2, 194, 444
35. Promotion of sugar industry	1, 388, 889
36. Industrial development fund	555, 556
III. Social welfare and medical	23, 507, 309
37. Dispatch of doctors and dentists	324, 531
38. Mental health countermeasure	1, 473, 514
39. Tuberculosis countermeasure	1, 554, 708
40. Physically handicapped welfare measure	101, 325
41. Livelihood protection activity	5, 333, 247
42. Child welfare countermeasure	1, 499, 461
43. Old-age welfare measure	374, 683
44. Waste disposal facility	374, 353
45. Social welfare facility	520, 461
46. Okinawa Seiwa Hospital	32, 053
47. Welfare activity guidance personnel and welfare activity specialist establishment expense	10, 794
48. Mother-child welfare fund	27, 778
49. Widow welfare fund	13, 889
50. Household rehabilitation loan activity	85, 008
51. Physically handicapped employment promotion	16, 237
52. Vocational training facility improvement	21, 917
53. Public housing	962, 889
54. Child governess for children of mothers in maternity condition	881
55. Child governess training loan fund	500
56. Welfare office improvement	2, 850
57. Public welfare committee member activity	2, 475
58. Women's protection activity	157, 361
59. Disease control	55, 556
60. Mother-child health activity	33, 047
61. Nursing school facility improvement	147, 692

Social welfare and medical—Continued	
62. Postgraduate medical education program	$257, 892
63. Government hospital facility improvement	65, 069
64. Government dispensary	4, 978
65. Habu countermeasure	8, 275
66. Vocational training office expense	30, 211
67. Unemployment countermeasure activity	549, 619
68. Industrial development youth training	61, 094
69. Part-time work public vocational guidance office establishment	41, 055
70. Working youth home	31, 250
71. Employment promotion of unemployed middle-old aged persons	85, 350
72. Daily laborer's employment countermeasure	9, 006
73. Water system	389, 397
74. Rural electrification	102, 500
75. Vocational training within U.S. forces' installations	78, 833
76. Social welfare hall	41, 667
77. Atomic bomb patient's countermeasure	23, 111
78. Hansen's disease countermeasure	100, 894
79. National health insurance	2, 496, 064
80. National pension	3, 830, 142
81. Welfare annuity	44, 869
82. Unemployment insurance activity	542, 203
83. Countermeasures for persons separated from U.S. forces employment	1, 596, 619
IV. Education	28, 923, 995
84. Teacher's salary	16, 737, 667
85. Free textbook distribution	725, 244
86. School facility	6, 615, 356
87. School equipment	1, 203, 564
88. Special school attendance encouragement fund	40, 669
89. School attendance encouragement subsidy for students who are in need of total or partial protection	218, 075
90. Remote area education promotion and school amalgamation subsidy	22, 406
91. Kindergarten improvement	26, 142
92. Private school subsidy	112, 139
93. Audiovisual library improvement	4, 444
94. School lunch program dissemination	64, 147
95. Shi-Cho-Son central community hall construction	44, 186
96. Youth home	27, 778
97. Educational statistics survey	2, 914
98. Education personnel health examination and treatment expense	1, 328
99. Local sports encouragement	2, 778
100. Cultural property protection activity	51, 650
101. National scholarship program	393, 592
102. Scholarship loan program	235, 533
103. University of Ryukyus improvement expense	1, 003, 244
104. University of Ryukyus' hospital facility	1, 340, 125
105. National youth home	51, 014
V. Municipal finance	11, 111, 111
106. Financial assistance to municipalities	11, 111, 111
VI. Reversion commemoration projects	18, 892, 917
107. Perimeter road construction	9, 444, 444
108. Battle site improvement	473, 631
109. Water resource development survey	765, 264
110. Hovercraft	716, 250
111. Tree planting festival	134, 450
112. National sports meet facility	7, 358, 878
VII. Other	5, 286, 564
113. Technical assistance	418, 572

Other—Continued	
114. Firefighting facility	95, 333
115. Fire defense school	88, 078
116. Military base vicinity improvement	900, 172
117. Public hazard prevention	5, 747
118. Police facility	109, 200
119. Police communication facility	772, 106
120. Traffic safety measure	86, 578
121. Land damage survey	27, 778
122. Youth development measure	5, 281
123. Remote area transportation countermeasure	55, 858
124. Pilot training center	277, 778
125. Sewer system	708, 575
126. Diet representation expense	83, 333
127. Promotion of emigration	3, 942
128. Population census	7, 881
129. Reformatory facility	52, 808
130. Land survey	222, 222
131. National land improvement	149, 397
132. Navigational aid	133, 972
133. Training of air operational personnel	13, 714
134. Seamen's training school facility	381, 306
135. Weather facility	696, 933
VIII. Adjustment fund	2, 777, 778
136. Adjustment fund	2, 777, 778
IX. Nampo Doho Engo Kai	189, 989
137. Nampo Doho Engo Kai projects	189, 989
B. Financial investment loan funds	38, 888, 889
I. Loan funds for industrial development, etc	25, 277, 778
II. Loan funds for improvement of public facilities, etc	13, 611, 111
C. Loan funds from Japanese rice sale proceeds	9, 166, 667

Mr. McEwen. Thank you, Mr. Chairman.

Mr. Passman. Let me make this observation. The closer the date of reversion approaches, the greater the Japanese economic aid to Okinawa, is that correct?

General Lampert. That is correct.

Mr. Passman. So they are really helping their own people. They know very well that Okinawa is going to revert back to Japan. So there is nothing so sensational about the increased Japanese aid.

General Lampert. It seems to me very wise on their part.

Mr. Passman. It would be like the Federal Government helping Maryland or Louisiana. They know very well that Okinawa is on the verge of becoming a part of Japan and they have tremendous interests there that they must protect.

General Lampert. I think they feel a very strong sense of responsibility for Okinawa.

Mr. Passman. Besides the responsibility, they have very profitable trade ties, do they not?

General Lampert. Yes. The bulk of Okinawa commercial business is with Japan.

Mr. Passman. So they make a tremendous profit off the Okinawans.

General Lampert. I am not sure about the profits.

Mr. Passman. Let us say sales then.

General Lampert. Yes, sir.

Mr. Passman. The Japanese do not do business for the fun of it; they do business for profit.

General LAMPERT. I believe that to be true.

Mr. PASSMAN. Let us not be too sympathetic toward the Japanese. They are only protecting their own people who will be a province of Japan in a very short while. Of course, the sugar production on Okinawa means an awful lot to Japan. They have that to protect, too.

General LAMPERT. They buy the entire annual output, about $45 million.

Mr. PASSMAN. Before I yield to my colleague, briefly, what are the sales to the Okinawans from Japan annually? What is the grand total?

General LAMPERT. The grand total of Okinawan imports is approximately half a million dollars.

Mr. PASSMAN. How much economic aid did the Japanese give that same year?

General LAMPERT. In 1970, $106 million.

Mr. PASSMAN. So the aid total represented about 20 percent of the imports.

General LAMPERT. Yes, sir.

Mr. PASSMAN. By the time you take the manufacturer's profit, the distributor's profit, and the retailer's profit, they still wound up with a big profit over and above what they gave them.

General LAMPERT. I expect that is right.

Mr. PASSMAN. Thank you very much.

Mr. Galifianakis.

Mr. GALIFIANAKIS. It is very nice to see you, General.

General LAMPERT. Thank you, sir.

IMPACT OF REVERSION ON BUDGET REQUEST

Mr. GALIFIANAKIS. Does the budget request contemplate whatever expense is involved in the reversion? Do you contemplate the reversion to transpire within the next fiscal year?

General LAMPERT. We expect that the reversion will take place in 1972, and as I explained——

(Discussion off the record.)

Mr. GALIFIANAKIS. So the budget request does not contemplate the actual reversion. You have a different proposition.

Mr. LAMPERT. Sir, this budget contemplates all of the expenses to the civil administration up until reversion based on an assumed reversion date of the end of June.

Mr. GALIFIANAKIS. What is your projection as to what the expectation of this Government, budgetwise, would be after the reversion? Is it within your negotiations now as to what price will be paid for maintaining our bases there?

General LAMPERT. Sir, the bases in Okinawa, as I understand it, will come into the same legal position and the same administrative position as our bases in Japan proper, which I understand to be that the Government of Japan pays the expenses of our supplying the bases and makes the bases available to us.

Mr. Ericson of the State Department, who represents the negotiating side, may wish to correct me on that.

Mr. ERICSON. That is absolutely correct.

Mr. GALIFIANAKIS. Do you contemplate a surcharge to the U.S. Government at all?

Mr. ERICSON. No, sir. In effect, we expect a savings to the U.S. Government in this context.

After reversion, the Japanese Government will furnish us the areas and facilities on which our bases are located. This means where private land is involved the Japanese Government will pay the leases where we now pay them.

Mr. GALIFIANAKIS. The Government of Japan?

Mr. ERICSON. Yes; the Japanese Government will continue to furnish us the state, prefectural and private land where our bases are located.

Mr. GALIFIANAKIS. I read the general's statement, and the summary seems to be optimistic, and I am hopeful it will turn out that way. However, suppose a surcharge type is proposed, do you contemplate any figures as to what type of demands will be made?

Mr. ERICSON. Our arrangements with Japan make no provision for any surcharge of the type you have in mind. We simply do not contemplate it at all.

Mr. GALIFIANAKIS. In the event that should arise, what is the alternative planning? If the optimism was not borne out, what do you see as an alternative?

Mr. ERICSON. We have not thought of any alternative, sir, because if one of this nature did arise it would seem to be an attempt by the Japanese to revise the security treaty and the status of forces agreement. They could not make such a demand without making provision for it in our arrangements with them.

Mr. GALIFIANAKIS. That is a possibility, is it not?

Mr. ERICSON. A very remote one.

REIMBURSEMENT FOR PUBLIC SAFETY ACTIVITIES

Mr. GALIFIANAKIS. On page 4, I would like a little elucidation on the $1,250,000 figure, particularly as it says this consists of one item, reimbursement to the Government for public safety operations. Could you elaborate on what kind of service is actually rendered there?

General LAMPERT. Yes, sir. This is a cash contribution to the Ryukyu Government for the pro-rata share of their public safety activity, which is primarily the police force. It represents slightly less than 12 percent of the annual cost of operating the police force. In Okinawa the Ryukyu police force has about 1,800 men in uniform with whom we have worked over the years, in training and equipping. That police force we rely on very heavily to help us during these rather frequent civil disturbances of various types which take place in Okinawa. One of the principles that I try to follow is to the extent possible I try to deal with the Ryukyuan demonstrator by having a Ryukyuan policeman take care of him rather than having an American soldier or marine or airman take care of him.

I do not always succeed in this but I always try. We make a strong effort to support the police force and rely on them heavily. The demonstration force control is only part. They are involved in investiga-

tions of crimes, investigation and control of traffic. Included in the public safety is the immigration control in Okinawa in which we have a strong interest. The operation of fire departments and certain related minor activities in the public safety field. The basic part is the police operation.

Mr. GALIFIANAKIS. They do not have a particular segment of that force allocated for purposes of protection to the military and their dependents, do they?

General LAMPERT. Not permanently except for a small number. There are about 40, I believe, who participate all the time in joint patrols with our military police. They make them available when we need them.

For example, we have had two strikes this year, fortunately neither one giving us extreme difficulty, but each lasted for 48 hours and involved picketing by union members and others at 40 or 50 different gates. Our military bases are scattered around.

During each of those 48-hour periods on the order of 800 Ryukyuan police were committed full time to helping us in various ways.

Mr. GALIFIANAKIS. How many people are we talking about being protected by that force?

General LAMPERT. There are 95,000 Americans in Okinawa, of whom 50,000 are in uniform.

About 35,000 are family members, women and children. The remainder are American civilian employees of the U.S. Government or American businessmen.

Mr. GALIFIANAKIS. Do you participate in the training of that police force?

General LAMPERT. We have in the past. They largely handle it themselves now with a considerable amount of technical advice from the Japanese National Police Force

Mr. GALIFIANAKIS. Do you furnish them any equipment?

General LAMPERT. We have in the past.

Mr. GALIFIANAKIS. You do not get a reciprocal adjustment for doing that?

General LAMPERT. No, sir. That has been part of our direct assistance. I am quite sure this is true. In each case we have explained our presentation to this committee and to the Congress.

Mr. GALIFIANAKIS. Do you contemplate the same relationship after the reversion that you now enjoy?

General LAMPERT. We hope for the same sort of harmonious relationship.

We do not expect to be subsidizing them in any way because they will become part of the Japanese National Police structure, either as national police or prefectural police.

Mr. GALIFIANAKIS. So the $1,250,000 will not be a recurring item?

General LAMPERT. That is right, we do not expect to ask for any more assistance.

Mr. REIGLE. Mr. Chairman, thank you.

Mr. PASSMAN. Mr. Reigle.

PAY OF PERSONNEL

Mr. REIGLE. Mr. Chairman, thank you.

On page 5 of your statement, I notice you are asking for $3,200,000 for administrative activities for the coming fiscal year, and that you anticipate as of July 1 of this year that you are going to have approximately 263 people on board, the bulk being Ryukyuans.

So you have 263 people starting the coming fiscal year.

If you were to have that many people on board all year long that figures something in excess of $12,000 a person on an annual basis. I assume because you are going from that figure down to zero by the end of the year, if you were to assume you would have approximately half that number on board for the whole year, we are talking about a cost that would range probably on the order of something closer to $20,000 or $25,000 plus per person. It seems to me that is an awful lot particularly in the light of the fact that half of these employees are local employees. That figure seems awfully high to me.

General LAMPERT. The average will be more than half. Assuming, and we do not know for certain the reversion date, but assuming reversion at the end of fiscal year 1972, we would expect to have 164 people on duty on the last day and they would all be separated on that date. So the average as reflected in our calculations, employment throughout fiscal 1972, is higher than one half.

Mr. REIGLE. So we are still talking about an average salary that is something close to $20,000 a head. I am sure it is higher in some cases and lower in others.

SEPARATION PAY COSTS

Geneal LAMPERT. Sir, about $900,000 of the personnel costs included in our request is for separation pay for both American employees and Ryukyuan employees terminated and, it is to cover transportation back to the United States for those American employees terminated whose terms of employment entitle them to transportation back to the United States. The figure we have submitted for average salaries shows for the average classification act—U.S. personnel—or GS salary, $13,849, and the average salary of local nationals or ungraded positions $3,396.

Mr. REIGLE. So what you are really saying is that the bulk of the cost is not for salaries as such, but it is for other things other than salary?

General LAMPERT. I believe most is for salaries but a large portion of the total amount is for purposes other than salaries.

CATEGORIES OF ADMINISTRATION COSTS

Mr. REIGLE. But if your average salary for lower grade people is $3,000 a year, and I assume most of the native employees would fall into that category, it would seem like the bulk of your cost has to go for other than wages.

Why don't you for the record split these numbers out, and see what it costs for salaries per se, both American personnel and native personnel, and then what is left. In other words, what is the rest of the administrative cost and how is it split out in terms of the travel costs?

(The information follows:)

FISCAL YEAR 1972 ARIA ADMINISTRATIVE ACTIVITIES $3,200,000

	Regular costs	Separation costs
Pay of personnel	$2,080,600	$718,400
U.S. personnel:		
Military reimbursement	304,000	
Civilian:		
Regular	1,391,700	
Terminal leave		51,100
Separation pay		140,000
Local national qersonnel:		
Regular	384,900	
Terminal leave		27,300
Separation pay		500,000
Travel of U.S. civilian personnel	26,000	161,000
Temporary duty travel	22,000	
Permanent change of station		48,000
Re-employment leave	4,000	
Household goods, hold baggage and POV's		113,000
Information program	48,000	0
Operating expenses	151,000	15,000
Operation of buildings, supplies and equipment, communications, transportation, printing and publications, representation, and administration of iustice	108,700	
Administrative support	42,300	15,000
Totals	2,305,600	894,400

SEVERANCE PAY RATES

Mr. REIGLE. What sort of severance pay do we pay the nationals working out there? They see this coming. It will not catch anybody by surprise. They realize they will be terminated.

General LAMPERT. That is right, sir. There is a sliding scale which is related to the length of service, and a large number of these people have worked for us for periods in excess of 10 years. It is also related to pay rate at the date of separation.

In some of the cases of the longer term employees this can come to as much as the equivalent of 2 years of salary.

Mr. REIGLE. Do we do that well in the Congress? No we don't! They are talking about 2 years of severance pay for the nationals.

Mr. LONG. You do not get that much if you die?

Mr. REIGLE. That seems high. Is that an arrangement that is peculiar to the Ryukyus or is that standard practice in other countries as well?

General LAMPERT. My experience in other countries has been very limited. I believe similar arrangements prevail in other countries. I do not know about the dollar magnitude.

Mr. PASSMAN. I believe in the free enterprise sector that 2 weeks is standard, as long as you give notice by the 15th and are dismissed on the 31st. If you wait until after the 15th I think the standard severance notification is 10 days with 30 days severance pay.

Mr. REIGLE. As I understand your response a minute ago, there are a number of instances where there will be 2 years of severance pay when you have this much advance notice.

People know that the job will end and people can make other plans.

General LAMPERT. I might add that the system we follow, which is somewhat different from the U.S. system, parallels quite closely the system followed in Japan, not only for people employed by the U.S. military in Japan, but in Japanese industry and business generally. I guess this is to be expected because of the close ties, economic and social, between the Ryukyus and Japan. Speaking generally, we believe our terms of employment, including separation pay, may be perhaps 80 percent of those which prevail in Japan in comparable situations.

Mr. REIGLE. Why don't you also include in the record the amount of separation pay for nationals? I would like to know how many instances where that amount is equivalent to 2 years salary. I would have a hard time convincing the hard pressed taxpayers in my district that we ought to follow that practice because we do not follow it here.

(The information follows:)

SEPARATION PAY FOR RYUKYUAN EMPLOYEES

Ryukyuan employees of USCAR are paid a separation allowance computed on one-twelth of 1 month's base pay for each month of creditable service subsequent to April 30, 1952 adjusted on the basis of length of service and type of separation as set forth on page 390, below. In order to receive 2 or more years of separation pay, an involuntarily separated employee would have to have had 16 years of creitable service. Records show that under these conditions 80 USCAR local national employees will qualify for separation allowances equal to 2 or more years of base pay at the date of their planned termination. This payment is, in effect, a lump-sum retirement allowance paid in lieu of a retirement annuity.

Mr. PASSMAN. If you do have the same arrangements for American personnel, put it in the record.

General LAMPERT. The arrangements for American personnel conform with the American Civil Service procedures which apply worldwide.

Mr. PASSMAN. Mr. Hathaway.

Mr. HATHAWAY. Thank you, Mr. Chairman. I want to join the others in welcoming you here, General.

General LAMPERT. Thank you.

RETENTION OF U.S. BASE RIGHTS

Mr. HATHAWAY. We are going to retain the base rights after Okinawa is returned.

General LAMPERT. For a period after 1972.

Yes, sir; we expect that the bases will be retained under the same provisions that apply to our bases in Japan. Those are governed by our mutual security treaty and the status of forces agreements. The answer to your question is yes.

Mr. HATHAWAY. Haven't we had experience in losing our base rights and couldn't we anticipate this might happen?

General LAMPERT. Sir, may I pass that one to Mr. Ericson from the State Department who is here to answer questions of that nature?

Mr. ERICSON. This is outside of my area of competence. I have been associated with Japan for a long, long time.

In some other areas of the world we have lost bases.

Mr. HATHAWAY. What assurance do we have that we will be able to keep these after the reversion?

Mr. ERICSON. We have no better assurance than that which is provided by our general relations with the Japanese and the treaties and arrangements we have with the Japanese. The bases on Okinawa will come under the same status as the bases on Japan proper.

Mr. HATHAWAY. If we did lose them for some reason or another, are they really needed? Don't we have other bases in that area that could make up for the loss.

General LAMPERT. I guess questions like that could better be answered by people here in Washington, such as the Joint Chiefs and others, but I do know our bases in Okinawa are very important, not only because of the amount of investment there, and the fact that they are well built and very efficient, but because of the geographical location.

It is a central location reasonably convenient to a number of critical areas.

Mr. HATHAWAY. Do you have a base in Saipan that is not far away?

General LAMPERT. No, sir; we have bases in Guam which is not far away.

Mr. HATHAWAY. It would be a loss, but it would not be a tremendous loss.

General LAMPERT. Sir, I believe the answer is that those bases on Okinawa are tremendously important to us, but I really am not qualified to compare their importance with bases elsewhere, since it is outside of my area of responsibility.

Mr. HATHAWAY. What are based there?

U.S. MILITARY STRENGTH ON OKINAWA

General LAMPERT. We have there now about 50,000 men in uniform. The 3d Marine Division with a total strength of about 18,000 people brought back from Vietnam a year ago. The Air Force has two airbases, one at Kadina and one at Naha, where they have fighter interceptors and air defense fighters. It is a major base for the Military Airlift Command flying back and forth across the Pacific. We have air defenses there, both fighters and Nike-Hercules and Hawk missiles. We have in the Army a very large logistical establishment, probably the best we have anywhere in the world, where we store supplies and issue them to the Army in that part of the world and where we repair and rebuild and sort out equipment and supplies shipped back from Vietnam. We have an extensive rebuild assembly line for rebulding two and a half ton trucks, to give you an example. There is a smaller Navy activity, with the Navy being the smallest of the services there.

Mr. HATHAWAY. If we had to, could we expect Guam to take over all these activities?

General LAMPERT. Sir, I am not at all familiar with Guam. I do

know Guam is a relatively small island and it is my impression it is fairly well occupied already. I am not qualified to answer your question directly.

NATURE OF DISSIDENT RYUKYUAN MINORITY

Mr. HATHAWAY. Let me ask just one more question. You mentioned on page 1 there is a vocal and militant minority. Is this an organized minority? Is it funded in any way, or is it just a group of students?

General LAMPERT. There are a number of different groups. They raise funds by assessing their members.

I do not know the degree to which they get support from outside, although we understand from time to time there is some support from sympathetic groups in Japan. These include groups which have been working for years to bring about the return of the government to Japan.

There are groups which are generally antimilitary; one, for example, calling itself the Anti-A & H-Bomb Association, which has a counterpart organization in Japan.

There are associations of various professional groups, such as the teachers, which are politically quite active in Okinawa, and which take positions which from time to time have been in opposition to our presence there and our activities. The labor movement in Okinawa is a very active one. Most of our Ryukyuan employees belong to one large union. While I would not call them a source of great trouble to us, they do from time to time go on strike and they are one of the forces that add to our difficulties.

REASONS FOR STRIKES ON OKINAWA

Mr. HATHAWAY. The strikes are for what—higher wages?

General LAMPERT. Usually for higher wages.

PRESSURES FOR REVERSION AND BASE REMOVAL

Mr. HATHAWAY. Is it for the same purpose that the minority is carrying on its activity? The minority are pressing for the reversion as soon as possible, and then their voice will be felt a little greater to get rid of the bases after Japan takes over.

General LAMPERT. Sir, I really do not know. It is hard to read the future. I think we believe that their attention may be deflected to policies and actions of the Government of Japan, and in fact their attention may be diverted away from us.

Mr. Ericson might want to add to that, having observed things in Japan proper.

Mr. HATHAWAY. Do you want to add anything?

Mr. ERICSON. I think the best statement is that the Japanese Government also believes the bases on Okinawa are vital and important to its own security. I think you can find the best statements to this effect in the commnique, which was issued by the Prime Minister and the President on November 21, 1969, and in the speech which the Prime Minister made to the National Press Club here. The problem with the minority

groups is that they do have close ties with Japan. They reflect the situation in Japan. I would expect when reversion takes place the same general situation will prevail in Okinawa as prevail in Japan.

But the Japanese Government remains pretty firmly committed to the relationship with us.

Mr. HATHAWAY. Thank you very much, Mr. Chairman.

Mr. PASSMAN. Mrs. Reid.

Mrs. REID. Thank you, Mr. Chairman.

U.S. INVESTMENT IN THE RYUKYUS

General, how much has the United States invested in the islands since we acquired them?

General LAMPERT. Mrs. Reid, we have contributed approximately $333 million in various forms of economic assistance. We have expended about $680 million in construction of military facilities. So this would come to, in round numbers, $1 billion. Then there have been continuing expenditures each year for services which have contributed to the economy and to the yearly income of the Ryukyuan people. I believe we estimate this year, for example, that the U.S. Government presence in Okinawa will be responsible for financial flow into Okinawa of about $275 million.

Mrs. REID. Could you provide for the record what we have contributed each year?

General LAMPERT. Yes, I would be glad to do that.

(The information follows:)

U.S. APPROPRIATIONS FOR THE RYUKYU ISLANDS, 1947–71 [1]

GARIOA:	
1947–55	$179,816,000
1956	3,000,000
1957	2,350,000
Subtotal GARIOA	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	19,041,000
1971	6,476,000
Subtotal ARIA	148,278,550
Total appropriations	333,444,550

[1] The first appropriation under heading "Administsration, 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 1947–55, and appropriations in fiscal year 1956 and fiscal year 1957.

CONTRIBUTIONS FROM VOLUNTARY NONPROFIT RELIEF AGENCIES

Mr. REID. How much in the way of assistance is provided to the Islands by voluntary, nonprofit relief agencies?

General LAMBERT. Mrs. Reid, that sort of activity has been present in Okinawa over the years. Church groups, other charitable groups of various kinds in the United States and elsewhere have contributed steadily. The Americans living in Okinawa do a good deal of raising money in various activities which in turn they contribute to the Okinawan economy. It is considerably less than the figure I mentioned. I would be glad to try to provide some specifics.

Mrs. REID. That would be helpful.

(The informtaion follows:)

WELFARE DONATIONS BY U.S. GROUPS IN THE RYUKYUS 1955–71

U.S. Civil Administration Ryukyu Islands records of U.S. donor support of Ryukyuan health and welfare agencies, institutions and individual recipients are available only since 1955. Moreover donations reported during the period October 1959 to June 1968 are grossly under reported since they represent only special cases involving equipment and construction or Christmas programs. Other donations were made directly without reference to the Ryukyuan-American Welfare Council. It is estimated that total donations in this period continued to range from an estimated $75,000 to $100,000 annually making the total contributed by private American donors during the period considerably more than $1 million. The following is a breakdown of reported donations:

Fiscal period ending:	
Dec. 31, 1955	$34,000
Sept. 30, 1956	81,081
Mar. 31, 1957	75,483
Mar. 31, 1958	114,153
Mar. 31, 1959	113,028
Mar. 31, 1960	99,852
Mar. 31, 1961	16,478
June 30, 1962	17,212
June 30, 1963	22,000
July 30, 1964	5,530
July 30, 1965	12,122
June 30 1966	16,435
June 30, 1967	57,007
June 30, 1968	15,904
June 30, 1969	122,182
June 30, 1970	107,652
Mar. 30, 1971	79,605
	989,724

The foregoing donations were received from 24 donor agencies classified as follows:

Officer's wives clubs	10
NCO wives clubs	5
Masonic Order wives clubs	2
American Legion, VFW and auxiliaries	4
Okinawa Regional Exchange Club, International Wives Club and Registered Nurses Club	3

PUBLIC INFORMATION PROGRAMS

Mrs. REID. What type of public information programs are being carried out now preparatory to the reversion of the Ryukyus to Japan?

General LAMPERT. We have a public affairs department in our civil administration for which we are asking, I believe, $48,000 in the year ahead. This is somewhat less than in past years. We have operated cultural centers, numbering five, throughout the islands, which correspond in a general way to the USIS information centers that we operate in foreign countries. We have published two magazines in Japanese which are circulated throughout the Ryukyus. We bring about the production of a certain number of television programs and news broadcasts, in which we try to publicize, I hope constructively, because we try to do this, the aims and purposes and activities of the United States. These activities have been scaled down considerably in recent years, and in the time between now and reversion will be concentrated with the money available on the television and radio work and a certain number of public activities, such as exhibits and shows and things of that sort.

For example, some of the American women with some assistance from USCAR put on a demonstration of American cooking in the local cultural center in which some 75 or 100 different American dishes prepared with food available on the Ryukyuan market were demonstrated. This sort of thing we will continue.

The effort I would describe as a relatively small-scale one from now until reversion.

MAINTENANCE OF HEALTH STANDARDS

Mrs. REID. When the reversion is completed, we will need to keep some agency of the Public Health Service there to maintain health standards for civilian and military personnel who remain there, or will these matters be taken care of by the military?

General LAMPERT. They will have to be taken care of by the military. Of course, the Ministry of Health, if that is the proper name of the Japanese Government, becomes responsible for what goes on there, as they are throughout Japan. I am sure the American military doctors will develop local liaison in cooperation with the local Japanese public health authorities and will work with them on public health and insect control and all those things, because we will need to continue to be interested in that.

As far as I know, we will not have any American public health activity operating there, nor do we contemplate any cash contribution for such activity.

PAYMENT FOR U.S. ASSETS UPON REVERSION

Mrs. REID. Is it anticipated that Japan will pay for the permanent structures there upon reversion, such as buildings and public utilities?

General LAMPERT. This all falls into the area of reversion negotiations. May I ask Mr. Ericson to respond to that question?

Mr. ERICSON. Negotiations are still in progress, but it is expected that the Japanese will compensate us for U.S.-owned civil assets on Okinawa.

DISPOSAL OF U.S. EQUIPMENT

Mr. REID. What is going to happen to the large quantities of trucks and so forth on our bases?

General LAMPERT. We expect that our bases will continue to operate so we will maintain and dispose of those just as we would if we continued to be in control of the Government; that is to say, the serviceable ones will be shipped to other locations or placed in storage there.

The unserviceable ones will be disposed of through the various property disposal programs which we follow.

Mrs. REID. For instance, will U.S. businessmen have an opportunity to bid on any of these items declared surplus on reversion?

General LAMPERT. Yes, ma'am. When we sell property through our military property disposal sales, American businessmen do now have the opportunity and will continue to have the opportunity to bid on these.

RYUKYUAN SCHOLARSHIP PROGRAM

Mrs. REID. What is the present status of the Ryukyuan scholarship program?

General LAMPERT. There are now a number of Ryukyuan students in the United States whom we will support to completion of the programs in which they are enrolled. These programs finally come to an end in 1974. Since we are asking for no further appropriations to pay for this, we are in our general fund programs—those are the programs financed from the locally produced general fund, deriving its income primarily from petroleum sales—setting aside money which will be adequate to close out the studies of all these students. So that program will be brought to an orderly conclusion. It will continue until sometime in 1974 as we now see it.

Mrs. REID. How many students are involved?

General LAMPERT. 152 are presently enrolled, of whom 65 are in the University of Hawaii, and 87 are at universities throughout the continental United States.

DESCRIPTION OF GENERAL FUND ASSETS

Mr. SHRIVER. If you would yield, you were testifying a little while ago about the general fund. Would you put into the record at that point what is included in the assets?

General LAMPERT. Yes, sir.

Mr. SHRIVER. Have you done that?

General LAMPERT. I will do it. I will be glad to do so.

(The information appears beginning on p. 383.)

Mr. SHRIVER. Briefly could you review it? One of them is a development loan fund. Another item is the——

General LAMPERT. There are three corporations: The Ryukyu Electric Power Corp. which supplies power to all distribution companies on Okinawa and is also furnishing power to the several offshore islands; the Ryukyu Domestic Water Corp. which produces and dis-

tributes potable water to all of the large cities and a large number of the smaller towns as well as the military bases on Okinawa; the Ryukyu Development Loan Corp. which is really a development bank which operates a loan program designed to assist Ryukyu businesses. Those are the three corporations. Then we import and sell the petroleum products which are sold throughout the Ryukyus. This brings in an income of $12 or $13 million a year on the average which is plowed back into economic projects of various types.

Mr. SHRIVER. Do you not own petroleum facilities?

General LAMPERT. Yes, sir, we do own certain petroleum facilities; tanks, aircraft fueling trucks, and certain related facilities.

Mr. SHRIVER. What is going to happen to this general fund on reversion?

General LAMPERT. Sir, the corporations, it has been announced, will be sold to the Government of Japan. The terms of the sale are involved in the negotiation process which Mr. Ericson might speak to. The general fund proper, we are planning to close out on the reversion date, and our plan is to continue, in the most effective way, we can with the various economic assistance projects which now are primarily public works projects and bring those as far along as possible up until reversion. The general fund will be closed on reversion date.

SALE OF ASSETS TO JAPAN

Mr. SHRIVER. I think you testified a moment ago you will build a highway for $15.5 million this year.

General LAMPERT. Yes, sir.

Mr. SHRIVER. Will our Government receive back into the Treasury any money for all these tremendous expenditures? A lot of the income came from American people who were over there.

General LAMPERT. Yes, sir.

The corporation will be sold to the Government of Japan, as will certain other civil assets. The highways which have been built in Okinawa and certain other smaller navigational aids. The terms of this sale, as far as I know, have not yet been finalized. They will produce an income to the United States.

Mr. SHRIVER. I would hope so.

Mr. PASSMAN. Thank you, Mr. Shriver.

(Discussion off the record.)

Mr. PASSMAN. General, if you and your supporting witnesses would like to take a little respite from your labors at this time, we will take a recess and go to the floor and answer the bells.

(Recess.)

APPROPRIATIONS FOR THE RYUKYU ISLANDS—FISCAL YEAR 1947–71

Mr. PASSMAN. The committee will come to order.

General, I wish that you would refer to the table on page 288 of part 1 of the hearings for the fiscal year 1971 appropriation.

I would prefer to have you put the "GARIOA" items through fiscal 1955 than itemize beginning with the fiscal year 1956. The only addition we would need is fiscal 1956 and 1957 and at the bottom you would

add fiscal 1971. Then we would get the total appropriation under this particular item for the entire period, fiscal 1947 through fiscal 1971.

(The information requested follows:)

U.S. appropriations for the Ryukyu Islands 1947–71[1]

GARIOA:	
1947–55	$179,816,000
1956	3,000,000
1957	2,350,000
Subtotal Garioa	185,166,000
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1958	2,475,000
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1961	6,089,000
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Subtotal ARIA	148,278,550
Total appropriations	333,444,550

[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 1947–55, and appropriations in fiscal year 1956 and fiscal year 1957.

Mr. PASSMAN. As I read the record, this committee in previous years recognized the importance of Okinawa to our own military forces and the security of our own country because the committee funded this program for the full amount over the years, with possibly one or two exceptions. I think the appropriation peaked in fiscal 1969 at $20,772,000, as compared to your request for fiscal 1972 of $4,450,000, is that correct?

General LAMPERT. That is correct, Mr. Chairman.

ANTICIPATED REVERSION DATE

Mr. PASSMAN. Last year it was stated that a specific date had not been set for the reversion of the Ryukyus to Japan, but it was to take place sometime in 1972.

General Lampert, do you have any specific date at this time?

General LAMPERT. Mr. Chairman, the specific date has not yet been set. The reversion negotiations which are being carried on in Tokyo are progressing and I presume a specific date will come from those negotiations.

Mr. PASSMAN. Your estimate is about the same as last year.

General LAMPERT. That is correct, sir.

FUTURE REQUESTS FOR AID TO RYUKYUS

Mr. PASSMAN. When the reversion is completed, that is, the negotiations have been completed and the reversion actually in effect, will that terminate any further requests for economic aid for the Ryukyu Islands?

General LAMPERT. Mr. Chairman, to the best of my knowledge that will terminate any further request for economic aid to the Ryukyus.

Mr. PASSMAN. Of course, I would think that on-going projects which still have funds would have to be continued to their completion, would they not?

General LAMPERT. Mr. Chairman, we have not yet begun to discuss with the Japanese Government how projects will be closed out. We do expect that our responsibilities would come to an end on reversion day and we plan to discuss with the Japanese Government an orderly agreement to insure that projects are closed out in a proper way.

Mr. PASSMAN. I am certainly not trying to make a case so that you may subsequently request money to continue on-going projects, but I do know in many parts of the world, where nations had broken off diplomatic relations with our country, that we had certain funds in the pipeline, and these funds were disbanded years after the program terminated. That is the reason I asked the question. The question really should have been, what disposition will you make with respect to on-going projects where you have started them and they are yet to be completed.

General LAMPERT. My direct answer to the question is that we do not know today but we intend to work out with the Japanese Government an acceptable arrangement for an orderly completion.

Mr. PASSMAN. When reversion takes effect, then we are out clean as of that time.

General LAMPERT. That is our intention, sir.

ASSETS OF THE GENERAL FUND

Mr. PASSMAN. I certainly hope it works out that way.

There has been some discussion this afternoon concerning the general fund. I would like to refer to it as the counterpart fund. Last year, if I remember correctly, it had built up to where it had assets of $134 million. What is the amount in this consolidated account at this time, General?

General LAMPERT. At the end of fiscal year 1970, Mr. Chairman, the net worth of all assets was $136,036,000. We estimate at the end of fiscal 1972, the total net worth of all assets will be approximately $155 million.

Mr. PASSMAN. That would have been an account to have had an investment in, wouldn't it?

General LAMPERT. Yes, sir.

Mr. PASSMAN. It has really skyrocketed. Would you place in the record at this point a list showing what those assets are, whether they are liquid assets, or real estate and buildings. Give us the breakdown and the grand total.

(The information follows:)

ESTIMATED GENERAL FUND ASSETS, JUNE 30, 1972

[In thousands of dollars]

	General fund	RDLC [1]	RDWC [2]	REPC [3]	Total
Current assets	4,830	10,068	514	2,521	17,933
Long term receivables	0	45,693	0	0	45,693
Fixed assets	0	24	47,311	44,020	91,355
Total net assets	4,830	55,785	47,825	46,541	154,981

[1] RDLC—Ryukyu Development Loan Corp.
[2] RDWC—Ryukyu Domestic Water Corp.
[3] REPC—Ryukyu Electric Power Corp.

SOURCE OF GENERAL FUND

Mr. PASSMAN. This account, I would say, was not generated by expenditures of people stationed there but by commodities we gave to the people of Okinawa, and they sold them to the local economy and made investments.

General LAMPERT. That is correct. In recent years the primary income has come from the importing and sale of petroleum products.

Mr. PASSMAN. It started with commodities sold.

General LAMPERT. Yes, sir.

Mr. PASSMAN. The expenditures made by personnel, military, and civilian on Okinawa would be in addition to this.

General LAMPERT. Yes, sir.

STATUS OF STRIKE ACTIVITY

Mr. PASSMAN. Last year you were having some trouble with strikes on the island. How is that situation today, General? Is it leveling off, lessening, or increasing?

General LAMPERT. Mr. Chairman, the situation has not become any more serious, but I could not say it has become any less serious. The labor union to which most of our employees belong is a very active union. When discussions and issues come up having to do with terms of compensation or terms of employment, this may lead to strikes. In the last year we have had three strikes, one in September and two this winter, each one fortunately of short duration but we still had them. I expect we will have more.

(Discussion off the record.)

Mr. PASSMAN. Of course, we realize we have a tremendous investment on the islands; and if it is not classified, you may want to put something in the record.

General LAMPERT. It is classified and may we go off the record.

(Discussion off the record.)

POSTREVERSION STATUS OF RYUKYUS

Mr. PASSMAN. When Okinawa reverts back to Japan, it will just be another province of Japan, will it not?

General LAMPERT. I understand it will again become a prefecture or province as it was before the war.

Mr. PASSMAN. It will simply be a part of our overall agreement with the Japanese concerning the presence of our forces on Okinawa.

General LAMPERT. Yes, sir. We understand the treaty and the status of forces we have in Japan will automatically cover the bases in Okinawa.

Mr. PASSMAN. That will save a lot of negotiating.

General LAMPERT. I hope so.

Mr. PASSMAN. The Japanese are good business people. Actually, they come closer to being supporters of the free enterprise system than any people on the face of the earth. They have the profit incentive.

(Discussion off the record.)

PAY INCREASE SUPPLEMENTAL BUDGET REQUEST

Mr. PASSMAN. General, you are requesting $260,000 for a supplemental applicable to fiscal 1971 for pay increases, is that correct?

General LAMPERT. Mr. Chairman, that is correct. The budget document reflects a supplemental increase in fiscal 1971 of $194,000 to cover a pay increase which became effective in December 1969, and an additional requirement of $66,000 resulted from the further pay increase granted on January 1, 1971. This latter amount is not included in the request before the committee, making a total for increased pay in the amount of $260,000, which we have not been able to absorb in our requests.

Mr. PASSMAN. Of course, we think of you people, as we think of our constituents, you are Americans doing your job.

We do know, sometime, in getting up figures hurriedly a little inflation could creep in. We have found many instances where departments could absorb part of these small expenses, especially when they are dealing with millions of dollars. Do you feel inasmuch as we are going to have to borrow this money, and we do not know when we will ever be able to pay it back, that possibly you might have another look and tell us if you could absorb any part of this $260,000?

General LAMPERT. Mr. Chairman, we believe it to be a minimum figure. I might point out to the committee that before coming in with a request for $260,000 we did absorb a related figure of $29,000 for the pay increase for the military personnel assigned to the civil administration.

Mr. PASSMAN. That works out of this appropriation.

General LAMPERT. Yes.

ADMINISTRATIVE ACTIVITIES BUDGET REQUEST

Mr. PASSMAN. Last year you requested $3,107,000 for administration, and this year you are requesting $3,200,000 for the same item. Would you define what is meant by administration since it is not captioned administrative expenses and why with a lower appropriation you would need more money to administer it?

General LAMPERT. Mr. Chairman, the largest amount of this item, nearly $2,800,000, goes for pay of personnel. The remainder goes for travel. It includes $48,000 for public information activities and $166,000 for operating expenses. In the pay of personnel is a cost of $730,000 for severance pay and termination pay of personnel who will be separated during the year, sir.

Mr. PASSMAN. If you apply your supplemental to the $3,107,000 would that change the figure any? Is there any of the supplemental that would apply to that?

General LAMPERT. The amount to which you referred earlier for which there is a supplemental request is not included in the $3,200,000.

Mr. PASSMAN. Then what would be the grand total so we would have something to compare fiscal year 1971 against fiscal year 1972?

Mr. KRAMER. $3,367,000, for fiscal year 1971.

Mr. PASSMAN. In reality, when you add the supplemental that should be made a part of that figure then your request for fiscal year 1972 for this item is about $300,000 less.

Mr. KRAMER. For 1972?

Mr. PASSMAN. Yes.

Mr. KRAMER. No, sir; we have to add the same amount to 1972.

Mr. PASSMAN. Then the $3,200,000 is not correct?

Mr. KRAMER. That is correct.

Mr. PASSMAN. Then why don't you give it to us so it is correct? That is what confuses us. You are testifying for the first version of the budget.

Mr. KRAMER. Yes, sir.

Mr. PASSMAN. So actually these figures are just something to talk about and not something to rely upon; is that correct?

Mr. KRAMER. That is correct.

Mr. PASSMAN. That causes the committee some concern.

General LAMPERT. May I speak to that, sir?

Mr. PASSMAN. Please do.

General LAMPERT. The figure of $260,000 to which the chairman referred awhile ago, as I understand it, is included in a supplemental request separately before the committee for fiscal 1971. Our fiscal 1972 request does not include a figure covering the additional amount which might be required for pay increases that become effective on January 1, 1971.

Mr. PASSMAN. Didn't the budget director know that this would be in effect on January 1?

General LAMPERT. Mr. Chairman, I am not able to answer that question, except to say that it is my understanding that this matter is under separate consideration within the Department of Defense. General Baldwin may be able to add to this, or one of the gentlemen with him.

Mr. KRAMER. Sir, this budget was prepared prior to the pay increase, and we are not permitted to put in any amount for future pay raises.

Mr. PASSMAN. In your statement do you say that this does not include these items and we will have to ask for a supplemental?

Mr. KRAMER. Yes, sir; we will have to ask for a supplemental.

Mr. PASSMAN. Did you say that in your presentation anywhere along the way?

Mr. KRAMER. No, sir.

Mr. PASSMAN. You do see where the committee is at a disadvantage. Here we are interrogating on a figure that is not a realistic one. It is obvious and you know and I know that this is not the total request. You are going to have to subsequently request a supplemental.

Mr. KRAMER. Yes, sir.
(Discussion off the record.)

TOTAL REQUEST FOR FOREIGN ASSISTANCE

Mr. PASSMAN. I want to make the record abundantly clear that we have only one President, and you will never hear me criticize him. You will hear me praise him. I do not believe any President makes mistakes by design. It is a difficult task. It behooves me to hold his hand up when I can and to cooperate in every way possible. I am certainly not blaming our President for the budgetary situation that exists. But I will say this, that there are a lot of people unhappy about the new legislation being proposed for the foreign aid program. I read in the newspaper that, "U.S. Moves to Reduce AID Role Overseas." Maybe some of you gentlemen read that in the newspaper. I do not believe the President has any knowledge of the real facts about the foreign aid program because the President has too many things to look after.

I am going to insert in the record at this point the requests for authorizations and appropriations for foreign assistance for fiscal year 1971, which amounted to $12,133,525,000. You can contrast these same 27 items with the fiscal 1972 request which total $13,517,628,000. So the total aid request is up by about $1,400 million, which is the highest in all the history of foreign aid and foreign assistance. What has happened is that these bureaucrats have fragmentized it. They have scattered it through the entire budget, changed the names of the programs, then put out something saying they are going to reduce one particular spigot, like technical aid, and they get headlines all over the Nation, "U.S. Moves to Reduce AID Role Overseas." It reminds me a little of a friend of mine in my district who is an alcoholic. I went home one day and they said "John looks good, he quit whiskey." I said, "That is the nicest thing I have heard in a long time." The next time I went back he was in the hospital. I said, "What is the trouble?" They said, "They are trying to dry him out, he has been on a terrible drunk." I said, "I thought he quit drinking whiskey." They said, "He did, but he is drinking Vodka." That is like this foreign aid program, they put it in a different bottle and it takes on a different name.

It is frightening to realize that this Government has grown to where some of your top people find out about some of these programs 5 years after the fact, or maybe three if they work hard. These bureaucrats are trying to get around this committee and move much of the aid over to multilateral organizations where this committee loses control and the right of examination. But I can tell them they can put the big britches on this time because we will show them we can cut these so-called sacred multilateral organizations. I am pretty sure the committee will feel that way when it gets around to it because although we may not be the smartest ones around, we do know something about the program. This does not apply to Okinawa. So we may have to put this in the record in a half dozen different places before it is over so people can actually read it.

(The information follows:)

New requests for foreign aid and assistance—92d Congress, first session—Fiscal year 1972

1. International Security Assistance	$1,993,000,000
2. International organizations and programs	168,000,000
3. Bilateral assistance	1,077,000,000
4. President's Foreign Assistance Contingency Fund	100,000,000
5. Inter-American Development Bank	500,000,000
6. Inter-American Development Bank (supplemental)	486,760,000
7. International Bank for Reconstruction and Development (supplemental)	246,100,000
8. International Development Association	320,000,000
9. Asian Development Bank	40,000,000
10. Asian Development Bank (supplemental)	60,000,000
11. Expanded multilateral assistance	35,000,000
12. Receipts and recoveries from previous programs	370,310,000
13. Military assistance (in Defense budget)	2,250,800,000
14. International Military Headquarters	74,400,000
15. Economic Assistance (in Defense budget)	90,900,000
16. MAAG's, missions, and milgroups	262,600,000
17. Permanent military construction—Foreign nations	106,000,000
18. Export-Import Bank, long-term credits	2,445,000,000
19. Export-Import Bank, regular operations	1,195,639,000
20. Peace Corps	71,200,000
21. Ryukyu Islands	4,450,000
22. Migrants and refugees	8,650,000
23. Public Law 480 (agricultural commodities)	1,320,400,000
24. Contributions to international organizations	160,680,000
25. Education (foreign and other students)	51,000,000
26. Trust Territories of the Pacific	59,739,000
27. Latin America Highway (Darien Gap)	20,000,000
Total new requests—Foreign aid and assistance, fiscal year 1972	13,517,628,000

New Requests for authorization and/or appropriation—Foreign assistance, fiscal year 1971

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)	2,260,300,000
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
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. Latin America Highway (Darien Gap)	20,000,000
Total new requests—Foreign assistance, fiscal year 1971	12,133,525,000

CARE OF HANSEN'S DISEASE VICTIMS

Mr. PASSMAN. General Lampert, I want to commend you, sir—and that certainly goes for all of the people on your staff—for your sympathetic and compassionate understanding of the people on the Ryukyus who are afflicted with Hansen's disease, which we so often refer to as leprosy. I think it is one of the nicest things that has ever been brought to my attention, when you brought the pictures of you and Mrs. Lampert visiting with these unfortunate people, bringing a little comfort to them.

I think that is one of the greatest things you will ever do for humanity—bring a little comfort to these unfortunate people, wherever they may be domiciled, because but for the grace of God, we, too, General Lampert, could be victims of the Hansen's disease.

General LAMPERT. Yes, sir.

Mr. PASSMAN. I am certainly coming back to Okinawa sometime and go out and visit with these people and maybe bring them a little cheer because after all, they are human.

General LAMPERT. They remember you, Mr. Chairman, with a great deal of respect and admiration and they would be delighted to see you anytime.

Mr. PASSMAN. Of course, it was you, General, and your coworkers, as well as your predecessor, that made these things possible. It is all right for them to speak kindly of me, but the credit goes to you people who were there with them and recognized their plight and did something for them.

I think that, within itself, should bring you a lot of comfort, not only now but in subsequent years, to know that you made some small contribution to the welfare of these unfortunate people.

General LAMPERT. That is quite right, sir.

REDUCTIONS IN USCAR PERSONNEL

Mr. PASSMAN. General, in this year's justification you indicate you will have 248 permanent positions in fiscal 1971, and 174 permanent positions in fiscal 1972, which is a decrease of 74 positions; is that correct, sir?

General LAMPERT. Yes, sir; that is correct. Those are average figures, sir, in each case for that fiscal year.

Mr. PASSMAN. Since most of the appropriation is used for pay of personnel, why are you requesting an increase in the funds for this item?

General LAMPERT. Mr. Chairman, I believe there is a small decrease in the amount requested for pay of personnel: $2,799,000 in fiscal 1972 against $2,982,000 in fiscal 1971.

Mr. PASSMAN. Could this confusion be brought about by the same thing we were discussing earlier, that we are dealing with an early estimate in the budget?

General LAMPERT. Mr. Chairman, I may well be confused by that.

Mr. PASSMAN. I do not want to say you are confused, General. I have never known you to be confused. You have always had the answers and if you did not have them, you would always say so. But certainly it is confusing to all of us when we realize we are working with two different budget versions. I trust at the proper time the committee will be

informed of the grand total. If we deal with it in two pieces we will be even more confused. I should think that it will come down as an amendment and be added to the regular appropriation rather than carried as a supplemental; is that correct?

Mr. KRAMER. Yes, sir.

Mr. PASSMAN. Thank you.

ESTIMATED OUTLAYS FOR FISCAL YEAR 1971

General, last year you estimated outlays for fiscal 1971 would be $11,940,000, and this year you reestimated that figure to be $14,111,000. Would you explain to the committee the increase in disbursements when in fact your appropriation was reduced below the request for fiscal 1971?

General LAMPERT. Mr. Chairman, I certainly will provide the information. I do not immediately find the figures to which you are referring.

(Discussion off the record.)

Mr. KRAMER. Mr. Passman, we had $14,111,000 excluding the supplemental, and we carry over an obligated balance of $1.7 million into fiscal 1972.

Mr. PASSMAN. So the $11,940,000 should have been added to the supplemental and the carryover unobligated funds.

Mr. KRAMER. We would add to that the carryover and the supplemental; yes, sir.

Mr. PASSMAN. It follows nevertheless that it is approximately $2,171,000 over the estimate, even if you add that to it; is that not right? You estimated last year that your disbursements would be $11,940,000. It turns out they are $14,111,000. To get the higher figure, you have to add to that the supplemental. But that still would not bring it up to $14,111,000. Put something in the record.

(The information follows:)

INCREASE IN ESTIMATED FISCAL YEAR 1971 OUTLAYS

The increased estimated disbursement for fiscal year 1971 is the result of a higher than expected obligated carryover from fiscal year 1970 and an accelerated fiscal year 1971 expenditure rate in order to complete insofar as possible all U.S. projects prior to reversion.

ORIGINAL AND REVISED ESTIMATES

[In thousands of dollars]

	Fiscal year 1971 budget	Current estimate	Difference
Estimated obligations	$6,952	$6,670	$−282
Obligated balance, beginning 1971	8,162	9,357	+1,195
Obligated balance, end of 1971	−3,154	−1,740	+1,414
Estimated expenditures	11,960	14,287	+2,327

Mr. PASSMAN. General, I would assume the large increase shown under Separation allowance on page 8 for the last 2 years is the result of phasing out your operation and sending dependents home.

General LAMPERT. That is correct, Mr. Chairman.

Mr. PASSMAN. Would you please place in the record what categories that would cover?

(The information follows:)

CATEGORIES OF RYUKYUAN SEPARATION PAY

Separation allowance (lump sum retirement) benefits are provided USCAR Ryukyuan employees computed on the basis of one-twelth of one month's base pay for each month of creditable service subsequent to April 30, 1952, with this sum adjusted on the basis of length of service and type of separation in the following categories:

[In percent]

Length of service	Voluntary separation	Involuntary separation
Less than 2 years	0	100
2 years but less than 5 years	25	120
5 years but less than 7 years	60	130
7 years but less than 15 years	100	140
15 years or more	110	150

SEPARATION ALLOWANCE FOR AMERICANS

Mr. PASSMAN. I would also assume that a good part of that would be for Americans.

General LAMPERT. A considerable amount is for Americans, Mr. Chairman.

Mr. PASSMAN. Do you have a special agreement with Americans who are on Okinawa with respect to the separation allowance, or is that under the civil service and applicable to all overseas personnel?

General LAMPERT. We adhere to the civil service regulations which apply all over the world, Mr. Chairman.

Mr. PASSMAN. So this is a fixed formula?

General LAMPERT. Yes, sir.

Mr. PASSMAN. It would not be any different for Okinawa than any other part of the world.

General LAMPERT. That is correct. We follow it exactly.

COMMUTATION ALLOWANCE

Mr. PASSMAN. Would you please explain the item which also appears on page 8 entitled commutation allowance?

General LAMPERT. Yes, sir. This is one of several allowances paid to our Ryukyuan employees, and it was added to the provisions of compensation in discussions with our employees last year because it is an allowance which has been paid for a number of years to the Japanese employees on the American bases in Japan proper. It in general is a small allowance paid to an employee who lives more than a certain distance from his place of work and is supposed to compensate him for traveling expenses.

Mr. PASSMAN. What is the limitation?

Colonel FALLS. More than 2 kilometers away.

Mr. PASSMAN. Let us get it in miles.

General LAMPERT. That would be a mile and two-tenths, sir.

Mr. PASSMAN. With a good strong arm you could almost throw a baseball that far. You mean if they live over a mile and two-tenths they get this allowance. In other words, it is really portal-to-portal pay, is it not, as we think of it in the coal mines?

Colonel FALLS. $1.50 a month.

Mr. PASSMAN. That is not a lot of money unless you had a lot of people. What if they live 20 miles away?

General LAMPERT. I think there is no change.

Mr. SHRIVER. Have we been doing this all along?

General LAMPERT. No, sir; this is the first year we have done it.

Mr. SHRIVER. Why are we doing it?

General LAMPERT. We added it because it is one of several allowances paid in Japan to the Japanese employees of the American military there which we do not yet have in our system. In the annual labor negotiations which take place out there that was one of the items we agreed to add in reaching an agreement with our employees on their terms of compensation for the following year.

Mr. SHRIVER. Subject to the money being provided by the Congress.

General LAMPERT. Yes, sir.

Mr. PASSMAN. This is something new.

General LAMPERT. Yes, sir.

Mr. PASSMAN. Chances are the Americans there did not think of it, but the Ryukyuans observed the Japanese getting this consideration so they negotiated favorably for themselves.

IDENTITY OF RYUKYUAN AND JAPANESE PAY PRACTICES

General LAMPERT. Mr. Chairman, we went into this after a good deal of consideration because we had been and we are continuing in our dealings with our labor to try to work out understandings with them which will move them toward conditions of employment identical with those which prevail in Japan proper for the Japanese who work on the American bases, and the reason is that after reversion, the Okinawan bases, as you mentioned earlier, will be in then what is part of Japan, and we know all these provisions will apply after reversion.

Mr. PASSMAN. But you will have no Americans there. They will be under the Americans; they won't be under the Japanese, will they?

General LAMPERT. I am referring to the Ryukyuans who work on the American bases in Okinawa, and I am comparing them with the Japanese citizens who work on the American bases in Japan, proper.

Mr. PASSMAN. I see what you mean. Rather than waiting for 2 years to come under the Government system you put them under earlier?

General LAMPERT. Yes, sir; and to be quite specific, this is an item we agreed to add to the terms of employment, the conditions of employment, to arrive at an understanding with our union which would cover the employment during the year we are now in.

Mr. SHRIVER. Are there any other terms of this agreement that were entered into that we haven't had before?

General LAMPERT. We agreed to wage increases, and this has been the pattern each year for the last several years, based on surveys of prevailing wages in the community.

RYUKYUAN BONUS PAYMENTS

Colonel FALLS. The so-called 25-percent yearend bonus, 25 percent of 1 month's pay, which in Japan, incidentally, is 50 percent.

Mr. PASSMAN. Is that a substitute for a vacation?

Colonel FALLS. No, sir. It is another form of compensation which follows the Japanese format. In addition to base pay, they receive a yearend bonus——

Mr. PASSMAN. What kind of pay?

Colonel FALLS. Base pay. They receive a base pay; they receive a summer bonus, and a yearend bonus.

Mr. PASSMAN. A summer bonus, a yearend bonus, a travel bonus, a vaction; all that?

Colonel FALLS. They also get vacations, yes, sir; depending on how long they have worked.

Mr. PASSMAN. How many Okinawans are working under this arrangement?

General LAMPERT. About 25,000, Mr. Chairman.

Mr. PASSMAN. 250 a month is 3,000 a year. That amounts to about three-quarters of a million dollars total, doesn't it?

Colonel FALLS. I haven't figured it out, sir; but giving a small raise to this number of people amounts to a sufficient amount.

General LAMPERT. The Japanese pattern of employing laborers is made up of base wages, and then a number of bonuses paid at different times of the year. This is true of other countries in that part of the world. It all adds up to the man at the end of the year receiving a total income which perhaps might be equivalent to about 15 months of pay. In other words, his base pay throughout the year, and then a number of bonuses of various types which are equivalent to perhaps as much as an additional 3 months. It is a very complicated pattern, and it is quite shocking to any American who runs into it for the first time. But it is the established pattern in the Japanese employment system, and it is generally followed in Okinawa, not only by the American Government employees, but by Okinawan businessmen and by the local government.

PERCENT OF GNP SPENT FOR DEFENSE

Mr. PASSMAN. I believe our country spends about 7.5 percent of its GNP on military. What percentage of GNP do the Japanese spend on defense?

Mr. ERICSON. Something less than 1 percent, sir.

Mr. PASSMAN. I would imagine these people could afford all these extra pay items. If we are going to spend 7.5 percent of our gross national product protecting them and they only spend 1 percent, they have a lot of money they can throw away. I hope that isn't catching. We have too many problems here already. But I would assume, inasmuch as the overburdened American taxpayers are putting up their money to defend Japan, Japan could afford to have almost any kind of a contract that they want with their workers. It causes me some concern. I am glad we are getting out.

PREPARATORY COMMISSION

What are the duties and the membership of the Preparatory Commission, General Lampert?

General LAMPERT. The Preparatory Commission, Mr. Chairman, was established in the agreement reflected in the communique, after

the meeting between President Nixon and Prime Minister Sato in November, 1969, here in Washington, and is an organization established in Okinawa to supervise the planning in Okinawa for the reversion of the government to the Japanese. It has two members. I am the U.S. member. The member representing the Government of Japan is Ambassador Takase, a senior member of the Japanese diplomatic service.

The Chief Executive, the head of the Okinawan Government, Mr. Yara, was designated as an adviser to the Commission, and in fact, becomes, to all extents and purposes, the third member.

The Commission is designed to provide a body that can meet in Okinawa to talk about reversion planning matters. Most of the work of planning for reversion is done in the established offices of our civil administration, in our various military headquarters, but it is brought together in the Preparatory Commission, which has a staff of six Americans in the American contingent.

ASSUMED DATE FOR REVERSION

Mr. PASSMAN. General, you stated on page 9, that this budget is prepared on the assumption that the reversion of the islands to Japan will take place on June 30, 1972.

We discussed this briefly earlier, but would you say this is a valid assumption at this time?

General LAMPERT. Mr. Chairman, as I stated earlier, the date has not yet been established, but for planning purposes, I think, this is still a valid assumption.

TRAVEL OF CIVILIAN EMPLOYEES

Mr. PASSMAN. Explain the large increase requested for the travel of civilian employees.

General LAMPERT. I think that is because of paying for the travel home of American employees who will be terminated and are entitled to be transported back to the United States.

INFORMATION PROGRAM

Mr. PASSMAN. You are requesting $48,000 for information, material, and services. It is stated in the justification that "* * * the requirement to maintain and strengthen the U.S. image in Ryukyus continues as U.S. military presence will remain in the Ryukyu Islands after reversion."

I would hope, and I would think, and I am inclined to believe, that our image is bound to be very high in the Ryukyus on account of what we have done for those people. We have made tremendous improvements on the island. When I first started going there, if you went in a courtroom you had one hinge on a little old wood door, and when you got inside the presiding judge had a box up in the front and you would sit down on benches, and he would have to use his fist as a gavel. Do you remember those days?

The schools they had were bamboo covered shacks. Is that about right?

Now the islands have many modern facilities. If we haven't created a good impression with all the air-conditioned buildings and courtrooms I just wonder how much good this $48,000 would do.

General LAMPERT. I think it would have been better, Mr. Chairman, if we said we were trying to wind up our affairs with due attention to the public relations side of our business.

CONVERSION TO YEN CURRENCY

Mr. PASSMAN. Many years ago the Okinawans used the yen as currency the same as the Japanese. Now the currency is dollars; is that correct?

General LAMPERT. That is correct, Mr. Chairman.

Mr. PASSMAN. I wonder if it will be the policy to continue using the dollar, or will they go back to the yen as currency?

General LAMPERT. That is something also to be worked out in the negotiations for which I have no responsibility. I have assumed the yen would become the currency in the Ryukyus after reversion.

Mr. Ericson might want to add to that.

Mr. ERICSON. That is correct, sir.

Mr. PASSMAN. It will go back to the yen?

Mr. ERICSON. Yes, sir.

CULTURAL CENTER ACTIVITIES

Mr. PASSMAN. What are the plans of the Japanese Government to take over the operations of the Naha Cultural Center since they are very soon to benefit greatly from the reversion?

General LAMPERT. Of the five cultural centers, four other than the Naha Cultural Center, are no longer being operated by us.

I am not certain how this will turn out, but we are interested in the possibility of the Naha Cultural Center being continued after reversion as an instrument of the U.S. Information Agency, as an information center run by the USIS.

Again Mr. Ericson may have information beyond mine. I don't believe that has been firmly established yet.

Mr. ERICSON. I don't know the exact answer.

DESCRIPTION OF CULTURAL CENTERS

Mr. SHRIVER. Would you describe what is meant by cultural center?

General LAMPERT. Yes, sir. The cultural center at Naha is a building which resembles a public library, with an auditorium in it. It is a library. The auditorium is used for various sorts of meetings and entertainment of various kinds.

In our situation in the Ryukyus, as the governing power, we have operated these cultural centers differently from what I understand to be the use of an information center in foreign countries. Namely, we have used them as a medium to publicize the United States, but also as a true cultural center in the community, a place where people can gather and can do things which have a useful cultural purpose. The center has those two aspects of its operation: The U.S. Information side, and the true neighborhood or community cultural center side.

Mr. SHRIVER. What would be the reason for retaining that in Okinawa, for the U.S. Information Service?

General LAMPERT. This is really out of my line, sir; because if it happened it would be after reversion, since Okinawa will be a prefecture of Japan. I would presume if it were continued there it would be under the same procedures and circumstances which lead to information centers being found in various cities in various parts of the world in foreign countries.

Mr. PASSMAN. What is the division between the costs of these cultural centers?

General LAMPERT. May I supply that for the record? I am not certain of it.

Mr. PASSMAN. Yes.

(The information follows:)

RYUKYUAN-AMERICAN CULTURAL CENTER

The objectives of the U.S. Civil Administration operated Naha Ryukyuan-American Cultural Center and the approximate cost (including personnel) of each is as follows:

1. To convey to the Ryukyuan people an understanding and appreciation of America as a nation, its people, culture and government policies—$40,100.

2. To insure that Americans stationed in the Ryukyu Islands have an understanding and appreciation of the Ryukyuan people, their culture, customs and way of life—$11,500.

3. To increase the knowledge of and pride in their own culture among the Ryukyuan people—$5,700.

INCREASE IN OPERATING EXPENSES

Mr. PASSMAN. General Lampert, you are requesting an increase for "Administrative Support" under the "Operating Expense" title. What does this actually cover? What is the difference between administrative support and administrative expense?

General LAMPERT. Included in this figure, Mr. Chairman, are moneys which are used by the civil administration to reimburse other U.S. Government agencies in Okinawa for services, and these are primarily funds paid to the Army which does the paymaster work for the civil administration, which handles purchasing and contracting, which provides telephone service. It is also, however, used for the compensation of the Japanese nationals who are employed in Tokyo in the small office we maintain up there, which handles applications for visitor permits, for travel permits to come into Okinawa. And the entire reason for the increase in 1972, in our request, is severance payments to the Japanese citizens who were employed in the Tokyo office who will be separated from the rolls.

Mr. PASSMAN. Is this another one of these gadgets that the Japanese have gotten us into? Why should we be paying that?

General LAMPERT. Sir, this is really a part of our USCAR public safety office. It is similar to a passport office. If a Japanese citizen wants to visit Okinawa he has to have a permit to come to Okinawa, and he gets it at this small office in Tokyo, and they issue him a permit. These people are employed by us because they are performing this function which is part of our responsibility for monitoring travel into Okinawa. There are only a few people in that office. It happens some of them

are Japanese citizens, because when they originally staffed the office they hired Japanese people because they were locally available.

(Discussion off the record.)

SUPPORT FOR LEPROSARIA

Mr. PASSMAN. General, I notice you are not requesting funds for the leprosarium this year, yet you are planning certain improvements. How are you going to be able to go through with these improvements when you have no funds?

General LAMPERT. Mr. Chairman, in the fiscal 1971 program there is an item of $50,000 for work at the leprosarium. That work has not begun, but we hope to begin it in the near future. That will pay for some sanitary improvements and for some electrical improvements and one or two other small projects. That will be the last of our cash expenditures, although as I mentioned to you, Mr. Chairman, there is a great deal of local interest. I mentioned in your office the other day that some of our soldiers, for instance, right now are engaged in roofing repairs and painting on several of the older buildings, and we are actually financing this—financing the materials out of the general fund which we discussed earlier. It is a small project, with a total cost of less than $3,000. Also, the American women raised money in their women's club activities, and they have been very interested and last year contributed about $11,000 for a number of items of equipment which the leprosarium needed, and I am sure they will continue doing that.

Mr. PASSMAN. I hope they will not be forgotten when you pull out. You have two leprosariums there, do you not?

General LAMPERT. That is right, sir. One on the main island and one on one of the southern islands.

Mr. PASSMAN. You have been able to provide both with sanitary equipment, good cooking equipment, good beds, and recreation centers?

General LAMPERT. Yes, sir. That is primarily to the generosity of this committee we have been able to do a great deal for them over the years.

Mr. PASSMAN. That makes us feel very good.

HIGH GRADE POSITIONS

General, on page 23 of your justification you indicated you have two positions that are called special positions at rates in excess of $30,714 annually.

General LAMPERT. Since this book was printed, one of those positions is no longer in existence, so there is now only one. That is the position of civil administrator, which is the direct manager, or senior officer in charge of the civil administration, and that is a foreign service officer class-1 of the Foreign Service, who is detailed to the Department of the Army and appointed to this position.

U.S. AND RYUKYUAN PAY COMPARISON

Mr. PASSMAN. For comparable jobs in Okinawa do the Japanese personnel, Okinawa personnel, and U.S. personnel get comparable wages?

General LAMPERT. Mr. Chairman, local personnel are significantly lower paid than Americans for similar work.

I am not familiar with the compensation in Japan, and it is my impression generally Japanese compensation is higher than Okinawan, but lower than American.

Mr. ERICSON. That is correct.

Mr. PASSMAN. General Lampert, as per usual, you are forthright, you answer all the questions head-on. We know that you have problems. In all probability they will be more intense in the closing days of this conversion because there are a lot of things to be worked out. This committee wishes you well, and we certanly hope we will go out as a committee and maybe see you during the late fall, perhaps, or early winter.

I have concluded my questions, and it is open to any member of the committee who has any additional questions they would like to ask.

OKINAWA REVERSION STATUS AND IMPACT

Mr. LONG. You state that reversion negotiations are underway in Tokyo. What is the status of the negotiations? When do you expect them to be completed?

Mr. ERICSON. The negotiations have been going on for about a year now. There has been considerable progress, but there are some matters yet to be resolved. The negotiations are now entering the final stage, and we hope very much to complete them this spring—probably in May or early June.

Mr. LONG. You say the Okinawans are "heavily dependent on our military bases and other outside support," although their economy and standard of living is improving. What will happen after reversion? Will Japanese investments fill the gap?

General LAMPERT. After reversion, the United States will continue to utilize the Okinawa bases in furtherance of mutual security interests in the area. Aside from already planned budgetary reductions, reversion would have little effect on the base generated cash input to the local economy.

SAFETY OF U.S. PERSONNEL

Mr. LONG. You also state that our economic aid to the Ryukyus is used solely to reimburse the local government for public safety operations performed to benefit U.S. military personnel and their dependents. Have the lives of these people been threatened or endangered by public disturbances in the last year?

General LAMPERT. There has been only one serious public disturbance during the past year; i.e., the Koza riot of December 20. Although damage was done to private vehicles owned by Americans, there were no serious injuries—largely due to the effective measures undertaken by the Ryukyuan police to contain the disturbance.

RELATIONS BETWEEN RYUKYUANS AND JAPANESE

Mr. ROYBAL. Mr. Chairman, I would like to pursue the relationship between the Japanese in the mainland and the Okinawans. I am under the impression that the people of Okinawa, that is the natives of Okinawa prefer not to really be associated with the Japanese. Am I correct or incorrect in that assumption?

Mr. ERICSON. Could I answer that off the record, sir?
Mr. ROYBAL. Yes, sir.
(Discussion off the record.)

RYUKYUAN REPRESENTATION IN JAPANESE PARLIAMENT

Mr. HATHAWAY. After reversion will they have a representative in the Japanese Parliament?

General LAMPERT. Yes, sir. In a rather interesting development the United States agreed last year to permit the Okinawans to elect representatives to the Japanese Diet in advance of reversion, and the election was held in the fall of 1970; five members to the lower house and two to the upper house. They went in in 1970, and it is my understanding that they enjoy the full privileges of members of the Diet, including voting privileges.

Mr. ERICSON. That is correct.

General LAMPERT. A rather unusual, unique situation.

Mr. HATHAWAY. There is no question that that will continue?

General LAMPERT. That is right.

Mr. PASSMAN. This lower and upper house, is that just a way of expressing two legislative bodies?

General LAMPERT. I would like to apologize to the chairman of the committee. I should have referred to the House of Representatives and the House of Councillors. I am not sure which is the upper house.

STATUS OF U.S. BASES AFTER REVERSION

Mr. ROYBAL. What will happen at the time of reversion? Will we become then tenants to the Japanese Government? Will we pay rent, or what will be the situation?

General LAMPERT. Sir, the bases that we would occupy under the terms of the treaty that prevails in Japan, those bases are to be provided to us by the Japanese Government, and in fact one of the benefits of reversion is we are now paying some $10 million a year in rents, and those rents we will no longer pay. The Japanese Government will have to provide that land to us and make their own arrangements with the landowners.

Mr. ROYBALL. There will be a savings, then, of at least $10 million at the time the reversion takes place?

General LAMPERT. That is correct.

PERCENT OF GNP SPENT FOR DEFENSE

Mr. PASSMAN. Mr. Secretary, I trust you don't feel badly about my polite statement with respect to nations in that part of the world who would, if the chips are down, stick with the United States and permit us to use their territory for whatever purpose we deem proper for our own security and theirs? We know we are not permitted to have gas stored in Japan; we know we are not permitted to have B–52's in Japan. So let's just put it in the record, and sometime you have a look at it. In the United States we are spending about 7.5 percent of our GNP on defense, is that correct?

Mr. ERICSON. I believe so, sir.

Mr. PASSMAN. Let's move out to that part of the world and take the countries you name. The Japanese are spending something like eight-tenths of 1 percent.

Mr. ERICSON. That is correct.

Mr. PASSMAN. Korea is spending 3.9 percent of their GNP on defense, is that correct?

Mr. ERICSON. Yes, sir.

Mr. PASSMAN. Let's go to the Republic of China, one of the highest in the world; they are spending 9.4 percent.

These are the statistics. I have no more love for one country than I do for the other; but these are the facts, and the record might as well reflect them.

RYUKYUAN REPRESENTATION IN DIET

Mr. SHRIVER. How many elected Members of the Japanese Diet are from Okinawa, or the Ryukyu Islands?

General LAMPERT. A total of seven, sir.

Mr. SHRIVER. How many Members are there in the Diet?

Mr. ERICSON. There are 486 Members in the House of Representatives and 250 in the other house.

Mr. SHRIVER. And for a little over a year, since 1970 they have——

General LAMPERT. They took their seats in December 1970, just about 3 or 4 months ago.

Mr. SHRIVER. What is the population of Okinawa?

General LAMPERT. Approximately 1 million, sir.

Mr. SHRIVER. They don't really represent half the number of people that we do in the U.S. House.

General LAMPERT. I am sure that is right, sir.

REPRESENTATION ALLOWANCE

Mr. SHRIVER. You are requesting $4,000 for representation allowances. How does this compare with the amount expected to be used in fiscal year 1971?

General LAMPERT. This is the same amount, sir, which has been in the budget request in each of my preceding two appearances.

Mr. SHRIVER. Prior to that time?

General LAMPERT. $4,000.

Mr. SHRIVER. You are winding down your activity. Why are we keeping the same amount?

General LAMPERT. The activity for which that is spent, which is primarily taking care of foreign visitors and Ryukyu officials, is not winding down. If anything, it is increasing. We see an increasing number of official visitors from Japan, for example, who come down on various——

Mr. SHRIVER. We don't have to wine and dine them, do we? They are going to take over the whole business shortly.

General LAMPERT. Sir, I give very close personal attention to the expenditure of this fund, but in fact, a considerable amount of the official entertainment for which the fund has been spent in the past and for which I am still spending it, is for Japanese officials who come to

Okinawa. And I have felt it is appropriate, and I believe that it is, sir.

NUMBER OF TROOPS ON OKINAWA

Mr. SHRIVER. On page 18 of the justifications it is stated that recent redeployment of U.S. troops from Vietnam to Okinawa has increased the requirement for public safety services for which you are requesting 1.25 million. Are there less troops in Okinawa?

General LAMBERT. I did not mean to indicate that. The third Marine division returned to Okinawa in November of 1969. I did speak of certain reductions in troop strength which had taken place in Okinawa in the last year, or slightly more than a year. I referred to the removal of the MACE missiles which the Air Force had had, to a reduction in size of the Army anti-aircraft defense force, to the removal of certain Air Force units. I did not mean to say there had been a reduction in total strength, because the arrival of the Marine division raised the strength to a point which is really greater than it was 2 years ago.

FOOD FOR PEACE PROGRAM

Mr. SHRIVER. How much food for peace commodities go into the Ryukyu Islands?

General LAMPERT. I have it here.

Could I supply that for the record? Otherwise I can find it and read it.

Mr. SHRIVER. It would be permissible, but I would like just an offhand guess.

Mr. KRAMER. $800,000.

Mr. SHRIVER. What will be the status of that program after reversion?

Mr. KRAMER. That program will also be terminated, along with all of our other aid programs.

TECHNICAL EDUCATION AND TRAINING

Mr. SHRIVER. What is going to happen to such programs as those shown on page 21 under technical education and training, such as the East-West Center and on-the-job training programs?

As far as our government is concerned we are not going to be participating in it, but will there be anything to take their place?

General LAMPERT. In connection with answering your question, may I correct something I just said? The one program will continue after reversion, the completion of the education of about 152 Ryukyuan college students now studying in American universities. And we have set aside enough money from the general fund to cover their expenses until they complete the courses in which they are now enrolled; and the last one will finish in 1974. That is the one exception. These other programs, sir, I am quite confident, will be replaced in various ways by Japanese Government sponsored programs, because they have a wide variety of such programs in Japan.

COMPENSATION FOR U.S. ASSETS ON OKINAWA

Mr. SHRIVER. I think I would like to direct this question to the Secretary. It goes back to the negotiations relative to the trust funds, or

these programs that we have such as the Development Loan Corp., the Electric Power Corp., the Water Corp., and all of the others.

Do you anticipate any money to come into the Treasury of the United States as a result of the negotiations?

Mr. ERICSON. We anticipate, sir, we will be compensated full value for these U.S. owned civil assets, yes, sir.

Mr. SHRIVER. And then our Treasury will perhaps receive it—or are you thinking perhaps it will be used for economic development or highways or further expenditures within the islands?

Mr. ERICSON. No, sir.

Mr. PASSMAN. This is what we refer to as the counterpart funds. We shipped them commodities and they sold the commodities to the local people, and this goes into an account. Now we could look at the original investment and see most of that account represents profit made by the operation of these facilities on the island, is that correct?

General LAMPERT. Yes, sir.

Mr. SHRIVER. That is all, Mr. Chairman. Thank you.

RYUKYUAN GOVERNMENTAL STRUCTURE

Mr. HATHAWAY. What does the Government consist of?

General LAMPERT. A unicameral legislature of 32 members, sir, and an elected chief executive, a governor, if you will, whose title is chief executive. He is elected by popular vote.

Mr. HATHAWAY. They are from the 32 districts?

General LAMPERT. Yes, sir.

Mr. HATHAWAY. You say the representatives to the Diet are elected at large?

General LAMPERT. That is correct. There is then a system of courts. There is a higher court and a lower court system, and another court known as the family court.

Mr. HATHAWAY. Do they have a cabinet?

General LAMPERT. The Government is divided into I think it is 10 departments, and the department heads constitute what amounts to a cabinet, yes, sir.

Mr. HATHAWAY. How long has it been in existence?

General LAMPERT. It was formed in 1952. We had been in control for 7 years and it had a military-supervised government which is replaced by this more formally organized Government of the Ryukyu Islands in 1952.

RYUKYUAN POLITICAL PARTIES

Mr. HATHAWAY. What about political parties?

General LAMPERT. The parties generally parallel the parties in Japan. The Legislature is controlled by what is now called the Okinawa chapter of the Japan Liberal Democratic Party. That is the party which is in control of the Government in Japan.

This is a so-called middle of the road party. The English translation is the Okinawa Socialist Masses Party, which is a centralist party. There is a socialist party which is quite close to the Japan socialist party, and there is the Communist-identified party, which does not call itself Communist but calls itself the Okinawa Peoples Party.

The one Japanese party which is not represented in the legislature is the Komeito, the Buddhist based party which does have members in some of the city councils.

Mr. HATHAWAY. They are all democratic, also?

General LAMPERT. In the municipalities the system parallels the Japanese system of cities, villages and towns, and in general there is an elected mayor and an elected assembly or council in each community.

Mr. HATHAWAY. You say no one is prohibited from voting or runing because of any party affiliations?

General LAMPERT. I believe that to be correct, sir. No one is prohibited.

Mr. HATHAWAY. Would you say it is a good, viable government?

General LAMPERT. Yes, sir; it is. We have difficulties with them, of course, from time to time in advising them, because they don't see everything the way we do; but I find the government officials to be men who, in their own way are trying to do a good job. We get along well with most of them. They are good people to work with. There is a constructive working relationship, and when you sit down with them to talk over a business matter, if you have a good interpreter present you can have really a very satisfactory sort of a session.

GOVERNMENTAL ARRANGEMENT AFTER REVERSION

Mr. HATHAWAY. But after the reversion, will most of the power be in Japan? Is it like a State in relation to the Federal Government?

General LAMPERT. It is like a State, sir. Mr. Ericson can speak to that better than I can since I haven't served in Japan.

Mr. ERICSON. The governor will be elected. The funds will be derived from central government sources, however.

Mr. HATHAWAY. They don't have taxing power?

Mr. ERICSON. They do have taxing power, but it does not supply the majority of the funds expended.

The Japanese this year are putting in $166 million, and this is not too far out of line from what the Japanese provide home island prefectures of similar size.

Mr. HATHAWAY. How many prefectures are there?

General LAMPERT. 46.

JAPAN'S MARKET ON OKINAWA

Mr. PASSMAN. Last year it was $106 million the Japanese put in, but they had a market there for Japanese commodities of over $500 million. This year the Japanese, according to present estimates, are putting in $160 million. What will be their market for Japanese commodities? What is the estimate?

Mr. KRAMER. About $550 million.

Mr. PASSMAN. It is a tremendous market for Japanese goods, and they make a big profit. Certainly there is no profit for us. It is strictly in the interests of Japan that we are there, as well as our own country. I want to repeat that. Japan is getting just as much protection if not more out of our forces there than the United States, because they are nearer, aren't they?

General LAMPERT. That is right.

Mr. PASSMAN. General Lampert, this concludes the hearings. I want to thank you, General Baldwin, Colonel Falls and all of these other supporting witnesses.

We have a very fine committee here, I believe, and we have a lot of new talent. Mr. Roybal is new on this committee, but he has come to us from Foreign Affairs Committee where he has been an active member for many years. We are going to look over your request very carefully, and I am of the opinion that when the recommendation is made, it will be one that will meet our commitments out there. The committee is adjourned.

THURSDAY, APRIL 1, 1971.

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
WILFORD J. FORBUSH, ACTING DIRECTOR, BUDGET DIVISION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Program by activities:			
Welfare assistance and services	56,842	73,000	100,000
Resettlement	4,731	5,827	6,338
Education	20,454	26,538	29,838
Health services	2,449	3,195	3,963
Movement of refugees from Cuba	657	950	1,050
Program administration	2,279	2,570	2,811
Total obligations	87,412	112,080	144,000
Financing: Budget authority	87,412	112,080	144,000
Budget authority:			
Appropriation	87,282	112,000	144,000
Pay increase (Public Law 91-305)	40		
Transfer from other accounts	90		
Appropriation (adjusted)	87,412	112,000	144,000
Proposed transfer for civilian pay act increases		80	
Relation of obligations to outlays:			
Obligations incurred, net	87,412	112,080	144,000
Obligated balance, start of year	11,315	14,704	18,424
Obligated balance, end of year	−14,704	−18,424	−24,524
Adjustments in expired accounts	−116		
Outlays, excluding pay increase supplemental	83,857	108,280	137,900
Outlays from civilian pay act suplemental		80	

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Personnel compensation:			
Permanent positions	1,190	1,278	1,306
Positions other than permanent	57	71	72
Other personnel compensation	8	11	111
Total personnel compensation	1,255	1,360	1,389
Personnel benefits: Civilian employees	82	95	100
Travel and transportation of persons	30	35	35
Transportation of things	5	5	5
Rent, communications, and utilities	405	435	578
Printing and reproduction	24	30	30
Other services	24,536	32,680	35,823
Supplies and materials	29	30	30
Equipment	6	10	10
Investments and loans	4,198	4,400	6,000
Grants, subsidies, and contributions	56,842	73,000	100,000
Total obligations	87,412	112,080	144,000

PERSONNEL SUMMARY

Total number of permanent positions	177	177	177
Full-time equivalent of other positions	11	11	11
Average number of all employees	171	171	171
Average GS grade	9.4	9.4	9.4
Average GS salary	$13,746	$13,784	$13,881

Note: After the budget was submitted, H. Doc. 92-93 was transmitted to Congress containing $103,000 in increased pay costs for fiscal year 1972.

Mr. PASSMAN. The committee will come to order. Today we will consider the fiscal year 1972 budget request for the Cuban refugee program of $144,103,000.

We have the Honorable Howard H. Palmatier, director, Cuban refugee program, accompanied by Glynn W. Baker, financial management officer, Cuban refugee program, Randolph W. Lee, director, budget division, Social and Rehabilitation Service, and Wilford J. Forbush, Acting director, Budget Division, Department of Health, Education, and Welfare.

Gentlemen, we are glad to have you appear before the committee.

I believe, Mr. Palmatier, you have a statement you would like to make to the committee in behalf of this appropriation request.

Mr. PALMATIER. Yes, Mr. Chairman.

GENERAL STATEMENT

Mr. Chairman and members of the committee, it is a pleasure to have the opportunity to present to you the appropriation request for the Cuban refugee program.

The request for fiscal year 1972 is for $144 million. This covers the following services for which this program, under the Migration and Refugee Assistance Act of 1962—Public Law 87-510—is responsible: reception and registration of refugees upon arrival in Miami; classification of job skills; reimbursement to the States for welfare assistance and services to needy refugees; educational and health services; and resettlement from Miami to homes, job opportunities, and reunion with relatives in other parts of the United States. Also included in the request are funds in the amount of $1,050,000 to be transferred to the Department of State for the cost of the airlift of refugees from Cuba,

which was established December 1, 1965, by the United States under the 1965 memorandum of understanding with the Government of Cuba. This activity is administered by the Department of State. The responsibility of the Cuban refugee program itself begins after the refugees have arrived in this country.

When the Cuban refugee program was established in 1961, it was given, basically, a twofold responsibility; first, to alleviate the impact of refugees on State and local resources by reimbursing State and local agencies for certain types of expenditures on behalf of the refugees; and second, to aid the refugees in becoming self-supporting through training, rehabilitative services, and resettlement from the port of entry, Miami, to opportunities in other parts of the country.

REIMBURSEMENT TO STATES FOR WELFARE COSTS

In accord with these responsibilities, one of the actions which the President directed the Secretary of Health, Education, and Welfare to undertake when the program was established was the 100-percent reimbursement to State welfare agencies from Federal funds for welfare assistance and health services to needy refugees. This has continued to be the policy throughout the course of the refugee program, in order to avoid the impact of needy refugees on States and communities. It is this reimbursement to the States which accounts for the major portion of the refugee program budget and for most of the increase of $32 million requested in 1972.

MOST REFUGEES ARE SELF-SUPPORTING AND ARE MAKING ECONOMIC STRIDES

Mr. Chairman, the refugees have established an excellent record for themselves in the United States, particularly when we consider that they arrive in a state of complete destitution, without any possessions or resources; that they have suffered usually several years of harassment and deprivation by the authorities in Cuba; and that many do not speak English. They bring with them, however, skills which continue to be higher than one would find in a cross-section of the population of Cuba, and they also bring with them a dedication to freedom and a spirit of determination to do their best in the United States. It is this determination, coupled with their skills and their willingness to start again at the bottom of the occupational ladder whenever necessary, which has led to their excellent reputation among employers and their considerable success. Over eight out of every 10 registered refugees are fully self-supporting, tax-paying, contributing members of the communities in which they live. Those who require Federal financial assistance consist principally of elderly and disabled persons, and of persons who have recently arrived in the United States and are expected to need assistance only during an initial period of getting started in a new country. The fact that those who require such assistance consist almost entirely of persons who do not have employment potential and of temporary aid to new arrivals is indicative of the fact that the vast majortiy of the refugees, who have employment potential, move rapidly to become self-sufficient.

In the Miami/Dade County area, studies by a private research firm, the First Research Corporation, have shown continued, substantial

economic advances by the refugees. A September 1968 study showed that families of Spanish origin (nearly 90 percent Cuban) had a total annual income of $342 million in Dade County. By October 1970, this figure had risen to $588 million. There was also a significant rise in median family income—from $5,200 in 1968 to $7,200 in 1970.

A nationwide survey conducted by the Census Bureau in November 1969, and released in February 1971, has provided the first national economic data on Cubans throughout the United States. This study showed Cubans in November 1969 to have a median family income of $5,957, a high labor-force participation rate, and a low unemployment rate.

INCREASED PROGRAM COSTS

Despite these substantial accomplishments, the constantly increasing cumulative number of refugees in the United States has resulted in increased financial needs for the Cuban refugee program, principally for the purpose of offsetting expenditures which would otherwise fall on the States and communities. As you know, Mr. Chairman, the program is not only responsible for services to refugees who arrive during a given year, but is potentially responsible, under certain circumstances, for expenditures on behalf of any of the refugees who are living in the United States, regardless of their date of arrival. It has been this 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, which has been the principal factor in increased costs.

The fiscal year 1972 request anticipates the continuing arrival of refugees during the year. Underlying the estimate is the expectation that, during 1972, the refugee airlift 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.

I should now like to present in a little more detail each of the six major activities composing the budget request.

WELFARE ASSISTANCE AND SERVICES

The request for 1972 for reimbursements to the States for welfare assistance and services to needy refugees is $108 million. Of this amount, $40 million is estimated for requirements in Florida, including hospitalization, and $68 million is for welfare assistance and services, including medical assistance, in other States.

The welfare and medical assistance made available to the refugees is administered by State welfare agencies and is based on the same standards of need and assistance as apply to U.S. citizens living in the same States. In Florida, the State has increased its assistance payments to American citizens and has urged that welfare grants to Cuban refugees also be increased, in recognition of the inadequacy of the present assistance level in relation to the cost of living and in order to reestablish greater comparability between the assistance to refugees and the assistance to other residents of Florida. The present monthly maximum payments for refugees are $60 for a needy single individual and $100 for a needy family. Under the State's regular programs, the maximum payments are now $114 for

a one-person case and $134 for a family of four persons. The 1972 estimate contemplates raising the assistance payments in Florida to a level more nearly equal to the regular assistance payments in that State. This change is expected to result in a rise in the average monthly payment from an estimated $41 per person in the present fiscal year to an estimated $53 in 1972.

Since the 1972 budget estimates were originally prepared, requests for reimbursement from States other than Florida have exceeded our original estimates. This has resulted from a larger increase than was anticipated in the average cost per case. The larger increase is primarily for medical assistance expenditures. We now estimate that an additional $4.4 million will be required in fiscal year 1971 and an additional $8 million in fiscal year 1972 to finance these increased costs. Decreases in our estimates for the education portion of this program are expected to enable us to finance these increased costs within the 1971 appropriation and the 1972 budget.

Since the refugees are eligible for welfare and medical assistance and services only under the same circumstances of need, and to the same extent, as American citizens, this places appropriate limitations on assistance to refugees. However, it also means that changes in the domestic assistance programs are reflected in refugee assistance. Expansion of the scope and cost of domestic programs, as in the area of medical assistance, also results in increased requirements for reimbursement to the States for assistance on behalf of needy refugees.

I have mentioned the fact that practically all of the refugees who require assistance for any appreciable period of time are older persons. For instance, in Florida, 66 percent of the refugees receiving welfare assistance are over 65 years of age, and a total of 81 percent are 61 years of age and over. This is indicative of the fact that the vast majority of the refugees—who have employment potential and whom we help to realize that potential through training, rehabilitation, and resettlement—are very anxious to work and do go to work as quickly as possible.

RESETTLEMENT

Resettlement of refugees from Miami to opportunities for self-support and reunion with relatives continues to be a major objective of the program. The estimate of $6,338,000 for resettlement activities anticipates that 32,000 persons will be resettled at an average cost of $198 per person, reflecting an increase of approximately 8 percent over the estimated average cost of $182 in 1971. The increase takes into account increased costs of assistance and services by the voluntary agencies in carrying out the resettlements and helping the refugees get started in the resettlement locations.

EDUCATION

The revised estimate for educational activities in 1972 is $21,838,000. This is less than the estimate for the present fiscal year and less than the estimate for 1972 originally included in the budget. There are two reasons for the downward revision in the estimate:

(1) The estimate originally prepared for 1972 included provision for continued assistance to the school systems in Union City and West

New York, N.J. A decision subsequently has been reached that funds for these two school systems will be made available under the provisions of section 202 of Public Law 91-230, which amended Public Law 874, 81st Congress. Section 202 provides for assistance to school systems in which the average daily attendance of refugee children amounts to 20 percent or more of total average daily attendance. The Union City and West New York school systems—both small school districts—qualify for impact aid under this requirement.

(2) The estimate originally prepared for 1972 for assistance to the Dade County, Fla., public schools anticipated a rise in the enrollment of refugee pupils continuing the previously experienced trend of increases. Subsequent to the original estimate, Dade County school officials have advised us of a decline in the rate of increase. The school officials have advised us that this has occurred because a number of refugee pupils have transferred from public to nonpublic schools (as have a larger number of the school system's nonrefugee pupils), and that these pupils are expected to continue their enrollment in the nonpublic schools in 1972.

These changes have enabled us to reprogram needed funds in the amount of $4.4 million in 1971 and $8 million in 1972 from the education activity to the welfare assistance and services activity in order to meet the increased reimbursement claims from the States received to date in 1971 and anticipated during the remainder of this fiscal year and in 1972.

I also wish to call to the committee's attention, Mr. Chairman, that the education activity includes one new element which we believe will be very helpful in enabling refugees to be self-supporting. This consists of educational loan funds in the amount of $1 million which will enable loans to be made to needy students who pursue nondegree technical or vocational courses leading to gainful employment, both in colleges and in proprietary institutions approved by the Office of Education. Previously, loans have been limited to needy students enrolled in degree-granting programs. The provision for this new type of loans included in the present request follows changes which have already been made in the current year in the domestic loan program under the Higher Education Act Amendments of 1968. We believe that providing such loans for nondegree technical and vocational training will be especially valuable to the refugees, most of whom have skills, but many of whom need limited additional training in order to expand their skills to fit into the needs of various occupations in this country. The availability of these loans for short-term training will be particularly helpful to refugees outside of Dade County for whom no organized vocational training program has been available although the need has existed and has become more urgent as more refugees have been resettled. We believe that this investment, in the form of loans, will yield many dividends in terms of enabling refugees to achieve fuller independence through gainful employment.

HEALTH SERVICES

The 1972 budget request includes $3,963,000 to provide health services to needy Cuban refugees in Miami comparable to the health services available to needy American citizens in Miami. This amount

represents an increase of $768,000 over 1971, reflecting anticipated continuing increases in the number of people to be served and in the cost of medical care.

MOVEMENT OF REFUGEES FROM CUBA

The cost of transportation of refugees from Cuba is estimated at $1,050,000 for 1972 by the Department of State, an increase of $100,000 over the estimated 1971 level. These funds are transferred by the program to the Department of State to cover the cost of the airlift, services provided 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 for 1972 is $2,914,000, an increase of $294,000. The increase includes $103,000 which is being added to our 1972 budget to defray the cost of the pay raise enacted in January 1971. In addition to the higher Federal salary scale, there are increases in the cost of providing reception facilities and services in Miami for newly arrived refugees. The program administration includes an average of 175 Federal staff performing program activities and direction both in Miami and Washington, the same number as in 1970 and 1971.

Mr. Chairman, I am most appreciative of the opportunity to present this statement, and we shall be very pleased to try to answer any questions.

Mr. PASSMAN. Thank you for a very excellent statement. We shall insert the justification pages 3, 5, 6, 7, 8, and 9 at this point in the record.

(The justification pages follow:)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

SOCIAL AND REHABILITATION SERVICES

Assistance to Refugees in the United States

Amounts Available for Obligations

	1971	1972
Appropriation	$112,000,000	$144,103,000
Real transfers from: "Higher education facilities loan fund" (Proposed transfer for increased pay costs)	130,000	---
Total, obligations	112,130,000	144,103,000

Obligations by Activity

Page Ref.		1971 Estimate Pos.	1971 Estimate Amount	1972 Estimate Pos.	1972 Estimate Amount	Increase or Decrease Pos.	Increase or Decrease Amount
12	Welfare assistance and services	---	$77,400,000	---	$108,000,000	---	+$30,600,000
18	Resettlement	---	5,827,000	---	6,338,000	---	+511,000
19	Education	---	22,138,000	---	21,838,000	---	-300,000
23	Health services	---	3,195,000	---	3,963,000	---	+768,000
26	Movement of refugees from Cuba	---	950,000	---	1,050,000	---	+100,000
27	Program administration	177	2,620,000	177	2,914,000	---	+294,000
	Total obligations	177	112,130,000	177	144,103,000	---	+31,973,000

Summary of Changes

1971 estimated obligations	$112,130,000
1972 estimated obligations	144,103,000
Net change	+31,973,000

	Base	Change from Base
A. Program Increases:		
1. Welfare assistance, including health services to needy refugees:		
(a) In Florida	$31,329,000	+$12,634,000
(b) In other States	49,266,000	+18,734,000
2. Resettlement of Refugees out of Miami	5,827,000	+511,000
3. Assistance to Dade County, Florida school system to help relieve impact of enrollment of large number of Cuban refugee children	13,438,000	+900,000
4. Vocational and English training in Dade County and professional retraining for physicians, teachers, etc	1,300,000	+200,000
5. Loans to students, including those for attending proprietary schools to improve employability	4,400,000	+1,600,000
6. Movement of refugees from Cuba	950,000	+100,000
7. Expenses related to Federal administration of program, including full year cost in 1972 of pay raise which became effective in January 1971	2,620,000	+294,000
Total, increases	---	+34,973,000
B. Program Decreases:		
1. Assistance to two public school systems in New Jersey that have a high percentage of Cuban refugee enrollments whose impact will be funded in 1972 under Public Law 874 relating to school assistance in Federally affected areas (total decrease)	3,000,000	-3,000,000
Total, net change	---	+31,973,000

Explanation of Changes

A. PROGRAM INCREASES:

1. Welfare assistance

a. Assistance to needy Cuban refugees in Florida.--Of the increase of $12,634,000 for this activity, $9,300,000 is for financial assistance of which $3,200,000 is for an increase of 6,600 persons in the average monthly caseload, and $6,100,000 is for an increase in the average monthly payment in Florida--from an estimate of $41 per person in 1971 to $53 in 1972. This increase is essentially due to a modification in existing policy which for a number of years has called for the same fixed maximum monthly amount that may be paid despite the rises in cost-of-living. This increase will also bring assistance payments to the refugees up to a level nearer that paid by Florida in its regular public assistance programs. The balance of the increase for this activity includes $2,000,000 for hospital costs; $768,000 for health services provided by or through the refugee clinic in Miami; about $200,000 for items such as care of unaccompanied children and transitional resettlement allowances; and $360,000 for administration of the program by the State of Florida. Aside from the higher financial assistance payments, the other increases are necessary primarily to provide for a larger number of refugees requiring assistance and services as a result of the continued influx of refugees from Cuba at the rate of approximately 48,000 per year.

b. Assistance to needy resettled Cuban refugees--States other than Florida. --Of the increase of $18,734,000 estimated for assistance to those refugees living outside of Florida, $14,900,000 is estimated for a larger caseload and the balance for a higher average monthly payment for basic welfare needs and medical care. The larger caseload is based primarily on the increase in the total number of refugees resettled out of Miami to other parts of the country. By the end of fiscal year 1970, these resettlements totaled almost 251,000; this number is expected to increase to 283,000 by the end of fiscal 1971 and to 315,000 by June 1972. Between June 1969 and June 1970 the number of refugees outside of Florida requiring financial and/or medical assistance rose from 25,000 to 33,600, an increase of 8,600 during fiscal year 1970 compared to an annual increase of about 7,200 persons the previous year. Based on similar experience since the airlift began in 1965, which indicates that each year an increasing percent of resettled refugees requires assistance, it is estimated that by the end of fiscal year 1971 there will be about 43,200 needy refugees requiring assistance and by the end of 1972, 54,000 representing an increase of 9,600 during fiscal year 1971 and 10,800 during fiscal year 1972. This rate of increase reflects the cumulative effect of the continuously increasing number of refugees living in the U.S., a higher number of whom each year are advanced in years, have more medical infirmities, do not possess the English ability that could help them achieve quicker and more gainful emplcyment, and lack other sources of income protection which most older citizens have achieved. An increase of $8 is estimated in the average monthly payment, from $107 in 1971 to $115 for 1972. The increase is only one-half the rate of increase between 1970 (when the fiscal year average was $95) and the 1971 estimate, which reflects operating experience through December 1970. Fiscal year 1971 is the first year all States aiding Cuban refugees will have medicaid programs in effect the entire fiscal year and this also results in larger expenditures for the refugees since State aid to this group is patterned after the regular State welfare programs. The 1972 projections, therefore, assume a smaller increase.

2. Resettlement of refugees out of Miami.--The increase of $511,000 for this activity is due to expected increases in costs to the voluntary agencies which perform the resettlement function for the Federal government.

3. Assistance to Dade County public school system to help relieve impact of enrollment of large numbers of Cuban refugee children.--The increase of $900,000 reflects a net increase of about 1,400 in the average number of Cuban refugee students who arrived in the U.S. since October 3, 1965, for whom school assistance will be provided in 1972, compares with an increase of 2,600 in 1971 and 5,200 in 1970. The sharp decline in the rate of increase in 1971 is due primarily, according to Dade County school officials, to increased utilization of non-public schools by Cuban refugee pupils, resulting in a substantial one-time reduction in the rate of increase--almost 3,000 less enrollments than previously estimated; this trend, on a much smaller scale, is expected to continue in 1972; school officials do not anticipate that it will be reversed. The decelerating increase in 1972 also reflects the fact that children who have been in U.S. schools over 5 years are considered ineligible for assistance; since the 5-year anniversary of the airlift was reached December 1, 1970, fiscal year 1972 will reflect the first full year's application of this policy. The increase also reflects the assumption that general school costs and teachers' salaries will increase by about 7 percent in 1972.

4. Vocational and English training in Miami.--An increase of $200,000 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 primarily to the additional refugees that are constantly being added to the Cuban population in Miami.

5. Loans to students.--Of the increase of $1,600,000 requested for loans to needy refugees, $600,000 is for the same type of loans as granted in the past; as more Cuban students complete their education, the number of needy students working toward degrees who will need loans will increase. An estimated 5,100 students, or 400 more than in 1971, are expected to request loans totaling $5,000,000 in fiscal year 1972; a 5 percent increase in the average loan per student is also reflected. An increase of $1,000,000 is requested for 1972 to initiate a program to provide an estimated 1,500 Cuban students with vocational or technical educational loans averaging about $700 each to attend approved proprietary institutions. This type of loan is now being made for U.S. citizens, with fiscal year 1971 being the first year the Office of Education has been able to implement the provisions in the Higher Education Act Amendments of 1968 which provide for extending NDEA type of loans to non-degree technical and vocational students enrolled in programs of not less than 6 months directed toward preparing the student for gainful employment.

6. Movement of refugees from Cuba.--These costs are based on advice from the Department of State. Over 80 percent of the $100,000 increase requested is estimated for increased airlift transportation costs; the balance relates primarily to Swiss Government services rendered in Cuba.

7. Program administration.--The increase of $294,000 requested for 1972 includes $165,000 for additional costs in connection with relocation of the reception and dormitory operations currently housed at Miami's International Airport. The Dade County Port Authority has notified the General Services Administration it cannot continue the lease on the airport facilities used for these services beyond October 31, 1971, since the area is required for other airport service facilities. The balance of the increase, $129,000 is to provide for higher operating costs such as periodic step increases iue

Federal staff, and to reflect the full year cost of the January 1971 pay raise effective only half of fiscal year 1971, data processing charges, communication, and various services required for the refugees temporarily cared for by the program while awaiting resettlement, for example: provision of food, linen, guard, waste removal and pest control services.

B. PROGRAM DECREASE:

1. Funding of school assistance to Union City and West New York, New Jersey under another program in 1972.--The 1971 appropriation requested and approved for the Cuban Refugee Program contained $3 million in recognition of the impact of Cuban refugee children on these two school systems. Subsequent to submission of the President's Budget for fiscal year 1971, the Act of September 30, 1950, Public Law 81-874, relating to School Assistance to Federally Affected Areas (SAFA) was amended in April 1970 (Sec. 202 of Public Law 91-230) to provide for impact aid to school districts that have a 20 percent or more average daily attendance of Cuban refugee children. It was decided that since funds had been appropriated in the Cuban refugee budget specifically for this purpose they should be used instead of SAFA funds in 1971, but that in 1972, the SAFA authority, and funds appropriated to the Office of Education for providing school assistance to Federally affected areas, would be utilized for assisting the New Jersey schools. This action results in elimination of the entire $3 million from the Cuban refugee budget in fiscal 1972.

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	56,000,000 1/	39,717,137 1/	39,717,137 1/
1965	45,400,000	45,400,000	34,800,000 2/	34,800,000 2/
1966	44,865,000 3/	44,865,000	42,600,000	42,600,000
1967	51,000,000	51,000,000 4/	51,000,000 4/	51,000,000 4/
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	72,509,000 7/
1970 8/	87,412,000	87,412,000	87,412,000	87,412,000
1971 9/	112,000,000	112,000,000	112,000,000	112,000,000
1972	144,103,000			

1/ Plus unobligated funds estimated to be $14,082,863 on hand as of 6/30/63.
2/ Plus unobligated funds estimated to be $7,600,000 on hand as of 6/30/64.
3/ Reflects reduction of $2,135,000 contained in H. Doc. 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/ All data include $90,000 transferred from a PHS account and $40,000 made available as an indefinite appropriation under P.L. 91-305 for pay increases in fiscal year 1970.
9/ Excludes $130,000 for pay raise proposed for transfer from other accounts.

Budget Summary

Activity	1970 Actual	1971 Estimate	1972 Estimate	Change
1. Welfare Assistance and Services:				
Florida				
a. Financial assistance to needy refugees	$14,200,157	$17,782,000	$27,078,000	+$9,296,000
b. Transitional resettlement allowances	947,060	1,032,000	1,200,000	+168,000
c. Care of unaccompanied children	752,694	810,000	846,000	+36,000
d. Distribution of surplus commodities	94,961	110,000	116,000	+6,000
e. Hospitalization	4,357,500	6,000,000	8,000,000	+2,000,000
f. State administration	2,079,976	2,400,000	2,760,000	+360,000
Subtotal (Florida)	22,432,348	28,134,000	40,000,000	+11,866,000
States other than Florida				
Financial and medical assistance to needy resettled refugees	34,409,195	49,266,000	68,000,000	+18,734,000
Subtotal, Welfare assistance	56,841,543	77,400,000	108,000,000	+30,600,000
2. Resettlement	4,730,997	5,827,000	6,338,000	+511,000
3. Education:				
a. Assistance to public school systems	15,140,680	16,438,000	14,338,000	-2,100,000
b. Vocational and English training for youth and adults	876,667	1,000,000	1,200,000	+200,000
c. Loans to students	4,198,075	4,400,000	6,000,000	+1,600,000
d. Professional training and placement	238,108	300,000	300,000	---
Subtotal, Education	20,453,530	22,138,000	21,838,000	-300,000
4. Health Services:				
a. Refugee health clinic	1,347,797	1,672,000	2,027,000	+355,000
b. Outpatient hospital services	495,336	803,000	1,064,000	+261,000
c. Maternal and child health, and school health services	171,031	200,000	234,000	+34,000
d. Hospitalization for long-term illness	435,239	520,000	638,000	+118,000
Subtotal, Health services	2,449,403	3,195,000	3,963,000	+768,000
5. Movement of Refugees from Cuba	657,000	950,000	1,050,000	+100,000
6. Program Administration	2,279,527	2,620,000	2,914,000	+294,000
Total, Assistance to Refugees in the United States	87,412,000	112,130,000	144,103,000	+31,973,000

INCREASES IN 1971 AND 1972

Mr. PASSMAN. Your 1971 appropriation was $112 million.

Mr. PALMATIER. That is correct, sir.

Mr. PASSMAN. For fiscal 1972, you are requesting $144,103,000.

Mr. PALMATIER. That is correct.

Mr. PASSMAN. That is an increase of $32,103,000 over fiscal 1971. Is that correct?

Mr. PALMATIER. That is correct for our appropriated funds.

Mr. PASSMAN. Have you a request for a supplemental applicable to fiscal 1971?

Mr. PALMATIER. No, sir; we have not; we are assuming, however, additional funds of $130,000 for pay raise costs to be made available by transfer in 1971.

Mr. PASSMAN. Why do you need such a substantial increase in your fiscal 1972 program, Mr. Director?

Mr. PALMATIER. We are faced with the same problem, Mr. Chairman, that we had last year. We have put together this budget on the basis of the assumption that there will be an additional 48,000 refugees who will be granted asylum in fiscal year 1972. As best we can determine, the composition of the arrivals will be similar to that in previous years.

We also assume that, despite all the positive efforts that the voluntary agencies can make, working with the refugees, and the positive efforts of the refugees themselves, there will be a net increase of about 17,000 to the welfare rolls during the fiscal year.

Mr. PASSMAN. What was your increase in fiscal 1971?

Mr. BAKER. About 16,000.

CHANGES WITHIN 1971 ESTIMATE

Mr. PASSMAN. In your justification before the committee for fiscal 1971, you projected that estimate. Has it turned out to be in accordance with your estimate?

Mr. PALMATIER. Generally, yes, sir. We did have——

Mr. PASSMAN. You say generally. Gentlemen, I have to make the case because money is getting very hard to get.

Mr. BAKER. The average payment per recipient is higher than we predicted.

Mr. PALMATIER. We overestimated our requirement for the Dade County school system by approximately $4.4 million. During the year we have reprogramed that $4.4 million for welfare services.

On the basis of our current estimate, we firmly believe we are going to need it.

Mr. PASSMAN. What is your estimate now of unobligated funds as of June 30?

Mr. BAKER. We think it will be practically zero.

Mr. PASSMAN. You will be terrific operators if you take the $100 million and fit it into a program where you wind up with only 30 cents left.

CONTINUATION OF COST INCREASES

Have you any idea whether this increase will continue at the present rate, or do you anticipate there will be a leveling off?

Mr. PALMATIER. My firm belief, sir, is that so long as the airlift is operative and we continue to bring refugees to the United States, there will be those of the new arrivals who, for reasons of health or age, are not going to become self-supporting, and our costs will go up, as you have predicted.

Mr. PASSMAN. I predicted?

Mr. PALMATIER. Yes, sir.

Mr. PASSMAN. I must have been in an awful good mood then.

CONTINUATION OF AIRLIFT

Have there been any discussions in the executive branch to determine if the United States is going to continue indefinitely to accept refugees from Cuba?

Mr. PALMATIER. Sir, the airlift, as you know, is provided for by the memordandum of understanding between the United States and Cuba of November 6, 1965. The memorandum of understanding is open-ended.

With regard to the future of the airlift, the Department of State has advised us as follows:

> The United States is committed, under the memorandum of understanding, to transport to the United States those Cubans who wish to enter this country, who are eligible under the provisions of the memorandum, and who are cleared by the U.S. Immigration and Naturalization Service for entry into this country. For reasons arising out of our over-all policy toward Cuba, our reputation for living up to our moral and international commitments, our humanitarian image, and our long tradition of providing asylum to refugees, continuation of the refugee airlift is assumed. While it is not possible to predict how long the airlift will continue or what actions might be taken in the future by the Government of Cuba which would affect the airlift, its continuation through fiscal year 1972 is anticipated and is reflected in the President's budget.

NO LIMITATION ON NUMBER OF REFUGEES AND NO CUTOFF DATE IN UNITED STATES-CUBAN MEMORANDUM OF UNDERSTANDING

Mr. PASSMAN. When you say open end, define open end as you understand it.

Mr. PALMATIER. As I understand the memorandum of understanding——

Mr. PASSMAN. You said open-ended agreement.

Mr. PALMATIER. Mr. Chairman, by open ended, we mean that in the memorandum of understanding there was no numerical limitation put on the total number of refugees who might come in, nor was there a termination date.

Mr. PASSMAN. Then it could only be terminated by agreement between the United States and Cuba through our representatives which are the Swiss?

Mr. PALMATIER. That is one way. The other way it could end is, if Cuba just stops letting people come out.

CUBAN REFUGEES MAKE POSITIVE CONTRIBUTION

Mr. PASSMAN. I am not quarreling with these people coming in. It is my understanding that they make good citizens. Some of the hardest working people we have in the State of Louisiana are the Cubans

living around New Orleans. They contribute greatly to the economy of Louisiana. So, I have no quarrel.

On the whole, I think they have been an asset to America. Certainly, I endorse it, as indicated by the very fact that we have always gone over the deep end to see that you people were sufficiently funded.

COST OF PROGRAM, 1961–1971

This is not like other brands of foreign aid although it is in the foreign aid program. For what reason, I do not know. It just happens that we are handling it. If you drive a hard bargain and it costs a certain amount of money per head to bring these people in, you could not cut a man, woman, or child in two and bring half of him in. You have to bring them in if they appear there with the proper credentials, do you not?

Mr. PALMATIER. That is correct, sir.

Mr. PASSMAN. It is fixed. If the number should be drastically reduced, then, of course, the appropriation likewise would have to be reduced.

Mr. PALMATIER. It would go down; yes, sir.

Mr. PASSMAN. I wish you would place in the record, on a per capita basis, the amount it has cost to operate this program for the past 5 years.

Mr. PALMATIER. Yes, sir.

Mr. PASSMAN. Please also consider the inflationary element when you provide the information.

(The information follows:)

PER CAPITA COST

Fiscal year	Obligations (millions)	Cumulative number of refugees registered	Average cost per registered refugee	
			Current dollars	Constant dollars [1]
1961	$4.1	29,628	[2] $332	$371
1962	38.5	122,212	315	348
1963	56.0	165,523	338	369
1964	46.0	172,572	267	287
1965	32.5	177,599	183	194
1966	35.8	207,147	173	178
1967	45.6	250,519	182	182
1968	55.2	290,353	190	182
1969	70.6	332,692	212	193
1970	87.4	379,229	230	198
1971 [3]	112.1	427,229	262	218

[1] 1967=100.
[2] Program in operation 5 months; figure adjusted to annual basis.
[3] Estimated.

REFUGEES GOING TO OTHER COUNTRIES

Mr. PASSMAN. Mr. Director, has any thought been given to terminating the airlift and having the refugees go to a third country before coming to the United States? This would save the United States from operating reception centers, would it not?

Mr. PALMATIER. Yes, sir; to my understanding, as I just mentioned, there is no thought, at least on the part of our Government, of ending the airlift. It is my understanding, from many conversations that I

have had with our counterparts in the Department of State, that very real efforts have been made to interest some of our Latin American friends in taking refugees from Cuba. These efforts have met with very limited success.

SHIPS VERSUS AIRPLANES FOR TRANSPORT FROM CUBA

Mr. PASSMAN. Would it not be cheaper to bring these people out of Cuba on boats rather than on airplanes?

Mr. PALMATIER. I was not here at the time, but I recall when the concept of the family reunion scheme was first developed, a lot of consideration was given to the use of ships because it was felt that in addition to transporting, perhaps more cheaply, some of the processing could have taken place on the ships.

It is my understanding that for other reasons it was rejected and an airlift was adopted.

Mr. PASSMAN. I wonder what the other reasons would be, because could you not move them by sea at a very small percentage of the total airlift cost?

Mr. PALMATIER. I do not know what it would be in terms of cost What is the per-passenger cost?

Mr. BAKER. Almost $20 per passenger, $1,530 per planeload.

Mr. PASSMAN. How many on each flight?

Mr. BAKER. About 85 on each flight.

Mr. PASSMAN. If you had a ship, it could bring in maybe 500 at a time. That is a 5- to 6-day quota, is it not?

Mr. PALMATIER. At the present time 3,500 a month are coming in

Mr. PASSMAN. Let us say every 2 weeks. That is 1,750. Are we not talking about $30,000 versus $5,000 for a chartered ship?

Mr. BAKER. I think the processing would bunch up.

Mr. PASSMAN. Could you not process them on the boat?

Mr. PALMATIER. You could do some of the processing on the boat. I personally do not know what the other considerations were.

Mr. PASSMAN. Gentlemen, why don't you have a look at it. If you are bringing in 3,500 a month or 1,750 every 2 weeks, you could charter a boat with that capacity. In all probability you would move them in for a very small percentage of what it is costing to move them in now by plane. Have a look at it.

Mr. PALMATIER. We will have it examined, yes, sir.

(The information follows:)

POSSIBLE USE OF SHIPS

The use of air transportation is provided for by paragraph 15 of the Memorandum of Understanding of November 6, 1965, between the Governments of the United States and Cuba. Paragraph 15 states: "The Government of the United States agrees to provide air transportation with such frequency and capacity as to permit the movement of between 3,000 and 4,000 persons per month." While it has not been possible to develop specific data, within the time available, relating the total costs of ships versus air transportation, it is believed that the present regularized flow of air arrivals, at a transportation cost of approximately $20 per passenger, enables savings to be made in the utilization of Federal processing personnel, in the making of arrangements for resettlement, and in other aspects of refugee reception, registration, room and board, and processing which offset savings that might be effected in transport costs alone of ship versus air transportation. The program will further explore the relative costs involved.

Mr. PASSMAN. Mr. Roybal?

Mr. ROYBAL. Thank you, Mr. Chairman.

PERCENT OF REFUGEES SELF-SUPPORTING AND THEIR INCOME

I am interested in your statement particularly when you make reference to the fact that 8 out of 10 registered refugees are self-supporting.

Mr. PALMATIER. Yes, sir.

Mr. ROYBAL. What is the median family income of the Cuban refugees at the present time?

Mr. PALMATIER. In Miami, where we have 300,000, as you know, half of the Cubans in the United States, a recent study made by a private firm for commercial interests, the First Research Corp., indicated that the median income in 1970 was $7,200 per family.

A nationwide survey conducted by the Census Bureau in November 1969 and released in February 1971 provided the first national economic data on Cubans throughout the United States. This study indicated that the Cubans, nationwide, in November 1969 had a median family income of $5,957 per year.

Mr. ROYBAL. How does the $7,200 in Miami compare to the median income of Americans throughout the Nation?

Mr. PALMATIER. I cannot answer that, sir. I would have to develop that for the record.

(The information follows:)

MEDIAN FAMILY INCOME

According to the latest data available from the Census Bureau, median family income for all U.S. families was $9,433 in 1969.

Mr. ROYBAL. Of the refugees that are now registered, how many are of school age?

Mr. PALMATIER. About 100,000. Probably one-fourth of the total number who have registered with us.

I could also give you the breakdown of the ages of all those who have come in on the airlift, cumulatively, if that would be helpful.

Mr. ROYBAL. Supply that for the record. Also supply for the record the amount of money you requested for education.

Mr. PALMATIER. Yes, sir.

Mr. ROYBAL. And maybe a breakdown of the per capita cost.

Mr. PALMATIER. Yes, sir.

(The information follows:)

AIRLIFT ARRIVALS, BY AGE: DEC. 1, 1965 (START OF AIRLIFT), THROUGH DECEMBER 1970

Age group	Number of persons	Percent
5 years and under	23,298	10.7
6–18 years	50,936	23.5
19–29 years	18,902	8.7
30–39 years	42,398	19.5
40–49 years	34,207	15.7
50–60 years	22,785	10.5
61–65 years	8,856	4.1
Over 65	15,816	7.3
Total	217,198	100.0

1972 FUNDS REQUEST FOR EDUCATIONAL ACTIVITIES

The total request is $21,838,000; of this, $7,660,000 relates to loans and contractual arrangements for adult training in English, in professional fields (retraining for doctors, dentists, and teachers), and in vocational skills. The balance of the request for education, $14,178,000, is for the Dade County public school system in recognition of the long, continuing impact of placing thousands of additional children in that system annually upon their daily arrival from Cuba. Funds requested for 1972 cover assistance to the school system on behalf of about 60 percent of the Cuban refugee children enrolled in the system: only those who have been in a U.S. school system less than 5 years. The total amount of almost $14.2 million requested for this purpose in 1972 would amount to about $642 per child based on an estimated average daily membership in the Dade County school system of 22,100 refugee children who have been in U.S. schools less than 5 years. About 28 percent of the funds requested are for school facilities and special staffing requirements and teaching materials for the refugees; the balance represents one-half of the per-pupil operating cost of $915 estimated for the entire system in 1972.

Mr. ROYBAL. I would like a comparison of the situation with regard to income and the cost per person for education, with statistics in other communities throughout the United States. For example, statistics in Spanish-speaking communities in the southwest, and in other Spanish-speaking communities in the United States would make it possible for us to make several determinations.

CONTRIBUTIONS OF REFUGEES TO U.S.

One would be the fact that the Cubans are making a real contribution to the United States, both in the economic field and also in the education field. It is, also, a fact that many of these Cubans come to the United States already with an excellent education, and because of that excellent education they are making a real contribution to the country.

When we get any criticism of the amount of money that is being spent for Cuban refugees, one can always say that the contribution that these people are making to the United States far exceeds our monetary contribution.

Mr. PASSMAN. Along that line, I would like to quote from page 101, part I, of the hearings last year:

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 States-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.

These people are hard workers. They can appreciate this new life.

Mr. ROYBAL. Yes.

Mr. PASSMAN. The incident that I described was in New Orleans. The instance that you described was in Los Angeles.

Is that pretty generally true throughout the sections of our country where you have Cuban colonies?

Mr. PALMATIER. It is, Mr. Passman. Wherever we have had Cubans settle, they have been well received and the comments from the local people of these communities have been very similar to your own and to the experience that you have had in Louisiana.

Mr. PASSMAN. I am basically interested in the fact that they want to work and they do work, and do not go on welfare.

Mr. PALMATIER. That is true.

Mr. ROYBAL. That is all, Mr. Chairman.

Mr. PASSMAN. Mrs. Reid?

Mrs. REID. Thank you, Mr. Chairman.

CUBANS HELP OTHER CUBANS

Do the more recent refugees and those who lack employment skills and English language ability, receive any help from those who came in earlier and are now settled?

Mr. PALMATIER. They receive quite a bit. One of the things we have been concentrating on in the past year and a half is to attempt to get Cubans throughout the United States to organize themselves in civic groups and social groups as some of the ethnic groups that have come to the United States previously, like the Italians, Czechs, and so on, have done.

We have been very gratified at the support the Cubans have given to this concept and the organizations that have been established and what the Cubans are doing to help fellow Cubans.

CUBAN PROFESSIONALS

Mrs. REID. Do you still find a large number of professional persons among the refugees, such as dentists, physicians, and so forth?

Mr. PALMATIER. Yes. Those who have had previous experience, professional, semiprofessional and managerial, have continued to run about 6.1 percent of all airlift arrivals.

Mrs. REID. Has there been any effort to resettle these professionals in the areas of greatest need, particularly the doctors?

Mr. PALMATIER. Particularly the doctors. As you know from your years on the committee, we have had for a number of years an arrangement with the University of Miami's International School of Medicine. When any physician does arrive, we put him through a special course to prepare him to pass the examination for foreign-trained physicians, and the school itself, in placement, attempts to induce the Cuban physician to go where he is most needed.

In every instance it does not work, but we have had many recorded instances where they have gone to rural communities, to small towns, where their skills are perhaps more needed than they would be in a large city.

REPAYMENT OF COLLEGE LOANS BY REFUGEES

Mrs. REID. Have you had any difficulty with the repayment phase of the loans to college students, and do the repayments go into a revolving fund?

Mr. PALMATIER. They do not go into a revolving fund. I think we have made about 12,800 loans, and we have 147 delinquent. That is all. These are delinquent, not because the people refused to pay, but because something has happened which makes it difficult for them to pay.

Mrs. REID. You think these will be paid eventually?

Mr. PALMATIER. I think they will, yes. I think when you consider that out of 13,000 only 147 are delinquent, I have reason to believe the 147 will be paid.

REQUIREMENT TO TAKE ENGLISH AND VOCATIONAL TRAINING

Mrs. REID. Have you any enforceable rule that requires individuals who want to remain in the Miami area to take vocational and English-language training?

Mr. PALMATIER. In Miami, which is the port of entry, we find out during their initial interview whether they are going to remain in Miami or be resettled to join a family member elsewhere. About 71 percent of those coming in on the airlift have relatives elsewhere and do not remain in Miami.

For a number of years we have had vocational and language training for the Cubans provided through the Dade County Board of Instruction. We encourage anyone who can make more money by upgrading his skill or by learning English, to attend these classes.

Participation is good, but we do not force people to attend. If we have a person who is on welfare and, on the basis of a physical examination and a study of his past skills, educational level, and so forth, we feel we can eliminate his need for welfare if we put him in training and he refuses the training, then we close the case. We do force them in that sense.

REFUGEE HEALTH CLINIC IN MIAMI

Mrs. REID. Do you still have the refugee health clinic in the Miami area?

Mr. PALMATIER. Yes, we have.

Mrs. REID. They get their health services at this clinic?

Mr. PALMATIER. Yes. The health clinic is actually operated in our behalf by the Dade County Board of Public Health. It is staffed completely by Cuban physicians under the direction of American-licensed physicians. The clinic is used principally to provide outpatient services to the Cubans who are on welfare, and thus avoid their overburdening other county facilities for non-Cuban welfare recipients. It is still there.

Mrs. REID. Thank you very much.

Thank you, Mr. Chairman.

Mr. PASSMAN. Thank you, Mrs. Reid.

Mr. Hathaway?

MEMORANDUM OF UNDERSTANDING DOES NOT LIMIT AIRLIFT DURATION

Mr. HATHAWAY. Is there a ceiling on the number who can come in under your program?

Mr. PALMATIER. No, sir. The memorandum of understanding is open ended. There is no numerical limitation on the total number who can come in, and there is no termination date in the memorandum of understanding.

FAMILY REUNION IMPLICATIONS

Mr. HATHAWAY. What is the relationship that you have to have to come in, or do you have to have one?

Mr. PALMATIER. You have to have one under the priorities which have been established. The degree of relationship does not go beyond cousin, which in Cuba is a very close relationship. Although the memorandum of understanding includes provisions for nonrelatives, all of those who have come on the airlift or are included on the lists are relatives.

(The memorandum of understanding appears below:)

(Off the record.)

November 6, 1965

Office of the White House Press Secretary
(Austin, Texas)

THE WHITE HOUSE

The President announced today that at 9:00 am CST the Swiss Embassy in Havana, representing United States interests in Cuba, and the Cuban Foreign Ministry had exchanged diplomatic notes establishing procedures and means for the movement of Cuban refugees to the United States. The arrangements for the movement were set out in a memorandum of understanding incorporated in the notes.

The full text of the note from the Swiss Embassy to the Cuban Foreign Ministry follows:

"The Embassy of Switzerland presents its compliments to the Ministry of Foreign Relations and, in its capacity as representative of the interests of the United States of America in Cuba, has the honor to refer to recent conversations which have taken place between the Embassy and representatives of the Government of Cuba with respect to the movement to the United States of Cubans who wish to live in the United States.

"The Embassy also has the honor to set forth below the text, in English and Spanish language versions which shall be equally authentic, of the memorandum of understanding agreed upon in those conversations:

"MEMORANDUM OF UNDERSTANDING BETWEEN THE EMBASSY OF SWITZERLAND IN HAVANA, REPRESENTING THE INTERESTS OF THE UNITED STATES OF AMERICA IN THE REPUBLIC OF CUBA AND THE FOREIGN MINISTRY OF THE GOVERNMENT OF CUBA CONCERNING THE MOVEMENT TO THE UNITED STATES OF CUBANS WISHING TO LIVE IN THE UNITED STATES

"1. The Government of Cuba agrees to permit the departure from Cuba of, and the Government of the United States agrees to permit the entry into the United States of, Cubans who wish to leave Cuba for the United States, in accordance with the provisions of this memorandum of understanding.

"2. In recognition of the prime importance of the humanitarian task of reuniting divided families, the two Governments agree that persons living in Cuba who are immediate relatives of persons now living in the United States will be given, as a group, first priority in processing and movement. The two Governments agree that the term 'immediate relatives' is defined to mean parents of unmarried children under the age of 21, spouses, unmarried children under the age of 21 and brothers and sisters under the age of 21.

"3. The two Governments agree that they will include as members of this first priority group other close relatives living in Cuba of persons now in the United States who reside in the same household as the immediate relatives when such inclusion is required by humanitarian considerations. In order to protect the integrity of the agreed principle of first priority for immediate relatives, the two Governments agree that it will be necessary to verify the relationship and the actual existence of the humanitarian considerations referred to. The two Governments agree that this task of verification will be carried out by the Embassy of Switzerland in Havana and that the judgment of that Embassy will be accepted by the two Governments as final.

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"4. The Government of Cuba agrees to present to the Embassy of Switzerland in Havana as soon as possible a list (hereinafter called "Cuban Master List A") of immediate relatives living in Cuba of persons now living in the United States, and of other persons living in Cuba described in paragraph 3 above, who wish to live in the United States. The Embassy of Switzerland in Havana will transmit Cuban Master List A to the Government of the United States. The Government of the United States for its part, will have prepared a list (hereinafter called "US Master List A") based on information supplied by persons now living in the United States who have immediate relatives living in Cuba and who are prepared to receive and are interested in receiving such relatives. It is understood that the lists provided for in this paragraph may be prepared in installments and shall be supplemented from time to time.

"5. Those names which appear on both Cuban Master List A and US Master List A will be incorporated by the Government of the United States in a single list (hereinafter called "Joint Consolidated List A"), which will be transmitted by the Embassy of Switzerland in Havana to the Government of Cuba. With respect to Joint Consolidated List A, there will be a presumption that the persons on the list will be permitted by the Government of Cuba to depart Cuba and will be permitted by the Government of the United States to enter the United States, but final permission will be granted in the form of approval by both Governments of embarkation lists for each flight from Cuba to the United States.

"6. The cases of persons whose names appear on Cuban Master List A or on US Master List A but not on both (and therefore not on Joint Consolidated List A) will be the object of further examination by the two Governments, utilizing the services of the Embassy of Switzerland in Havana as required, with a view to the inclusion of such persons in addenda to Joint Consolidated List A, or, in any case, in the second priority group described below in paragraph 8.

"7. The two Governments agree that from Joint Consolidated List A, and its addenda, embarkation lists for each flight from Cuba to the United States will be drawn. The two Governments agree that they will make every effort to ensure that the following categories of persons appearing on Joint Consolidated List A are transported in the order of priority indicated: First, parents and unmarried brothers and sisters under the age of 21 living in Cuba of children living in the United States under the age of 21; Second, unmarried children under the age of 21 living in Cuba of parents living in the United States; and third, spouses living in Cuba of persons living in the United States. Families and other members of the households will be permitted to travel together in accordance with the principles of paragraph 3 above.

"8. When both Governments agree that the persons appearing on Joint Consolidated List A and its addenda no longer require full utilization of the transportation provided, the movement of other persons living in Cuba who wish to live in the United States will begin. First consideration will be given to relatives living in Cuba of persons living in the United States who do not fall within the definition of immediate relatives.

"9. The Government of Cuba agrees to present, in due course, to the Embassy of Switzerland in Havana, for transmission to the Government of the United States a list (hereinafter called 'Cuban Master List B') of all such persons who will be permitted to depart from Cuba. The Government of Cuba agrees to consider, in preparing Cuban Master List B, names of persons living in Cuba submitted by the Government of the United States on the basis of information supplied by friends and relatives living in the United States.

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"10. The two Governments agree that Cuban Master List B will form the basis of the preparation of embarkation lists for each flight from Cuba to the United States, in accordance with procedures described below.

"11. The Government of Cuba agrees that, with respect to persons on either Joint Consolidated List A or Cuban Master List B, it will prepare, in consultation with the Embassy of Switzerland in Havana, prospective embarkation lists for individual flights from Cuba to the United States. Such lists will be provided the Government of the United States at least seven days prior to the date of the flight.

"12. The Government of the United States agrees in turn to inform the Government of Cuba without delay, through the Embassy of Switzerland in Havana, of persons on the embarkation lists approved for entry into the United States, with the understanding that final formalities will be completed at the point of embarkation by officers of the US Immigration and Naturalization Service and Public Health Service.

"13. The Government of Cuba agrees to assemble such persons at the airport at Varadero.

"14. The two Governments agree that such persons will be subject to a final departure inspection by officials of the Department of Immigration and the Ministry of Public Health of Cuba and to an entrance inspection by officials of the Immigration and Naturalization Service and the Public Health Service of the United States, at the airport in Varadero. Persons found to be ineligible for departure from Cuba by Cuban officials in accordance with the laws and regulations in force in Cuba or those found by American officials to be ineligible for entrance in to the United States under laws and regulations in force in the United States will not be permitted to embark.

"15. The Government of the United States agrees to provide air transportation to carry persons permitted to depart Cuba and to enter the United States from Varadero to a convenient point in the United States.

"16. The Government of the United States agrees to provide air transportation with such frequency and capacity as to permit the movement of between 3,000 and 4,000 persons per month.

"17. The two Governments agree that the first movement under the terms of this memorandum of understanding will begin not later than December 1, 1965.

"18. The two Governments agree that any problems that may arise in the implementation of this memorandum of understanding will be considered jointly by the Embassy of Switzerland in Havana, representing the interests of the United States of America in the Republic of Cuba, and the Government of Cuba.

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"In the course of the conversations which led to the memorandum of understanding set forth above, the Government of Cuba stated its position concerning the departure of technicians and men from 15 to 26 years of age in Cuba who are obliged to perform compulsory military service. The Government of Cuba also stated that it would set forth its position on these matters in a separate note.

"The Government of the United States stated that it would reply, through the Embassy of Switzerland, to the note of the Government of Cuba referred to in the preceding paragraph and would set forth its own position on these matters as it had been expressed in the course of the discussions. Furthermore, the Government of the United States stated it would transmit to the Government of Cuba, through the Embassy of Switzerland, a separate note concerning the position of the Government of the United States on the matter of the inclusion in the movement from Cuba of persons imprisoned in Cuba for offenses of a political nature as that position had been expressed in the course of the discussions.

"The Government of Cuba stated that it would reply to the note of the Government of the United States concerning the inclusion in the movement to that country of persons imprisoned in Cuba for offenses against the revolution and would set forth its own position on this matter as it had been expressed in the course of the discussions.

"The Embassy has the honor to propose that, if the understandings described in the memorandum of understanding set forth above are acceptable to the Ministry of Foreign Relations, this note and the Ministry's reply concurring therein shall constitute an acceptance by the Government of the United States and the Government of Cuba of the terms of the memorandum of understanding, which shall take effect on the date of the reply."

(Spanish language version omitted)

A concurring note from the Cuban Foreign Ministry to the Swiss Embassy completed the exchange and put the memorandum of understanding into effect.

In addition to these main notes, there were four other notes exchanged separately at about 9:30 am CST. The first of these, from the Cuban Foreign Ministry to the Swiss Embassy, reads as follows (complimentary introduction and close omitted):

"The Government of Cuba, in accordance with the statement in the note containing the memorandum of understanding, and in order to prevent errors in interpretation on the part of, or in relation to, certain persons who, by reason of the social function they perform or because of legal obligations from which they cannot be excused, are subject to certain restrictions in regard to their departure or who do not have the right to leave the country, considers it useful to confirm in writing, and also to publish, what was stated orally in the conversations with the Swiss Embassy which preceded the said (memorandum of) understanding, in reference to priorities, form and manner of departure of Cubans who wish to join their relatives or live in the United States, namely that in thecase of technicians or skilled personnel whose departure from the country may cause a serious disturbance in a specific social service or in production, because a replacement for such person would not immediately be available, the Government of Cuba will authorize the departure of such person within the period during which the trips will take place, but will postpone it until the time when such person may be replaced in the duties which he performs.

"Likewise, and in conformity with the statement in the Cuban note containing the memorandum of understanding, and for the same reasons set forth in the preceding paragraph, the Government of Cuba considers it desirable to confirm hereby, and at the same time to publish, what it clearly stated during the course of the negotiations; namely that no citizen who under the law is included in the first call-up for compulsory military service, that is, between 17 and 26 years of age, or who will be included in the call-up in the next two years, that is to say, who is at present 15 years of age, has the right to leave the country and therefore will not be authorized to leave."

The Swiss Embassy replied to this note as follows.(complimentary introduction and close omitted):

"During the recent discussions which led to the memorandum of understanding of November 6, 1965, the Embassy of Switzerland made clear that it had been the understanding and hope of the Government of the United States that the statement by the Prime Minister of Cuba on September 30, 1965, would encompass persons in these categories who wished to leave Cuba to live in the United States. Thus, for example, there was no suggestion in that broad statement that any technicians who wished to leave Cuba for the United States would be prevented from departing, even temporarily.

"The Government of the United States regrets that at this time the Government of Cuba has not permitted men subject to military service and certain technicians to be included under the terms of the Memorandum of Understanding. The Government of the United States expresses the hope that the Government of Cuba will be willing to reconsider this position expressed in the course of the discussions mentioned above and repeated in the note of the Ministry. The Government of the United States wishes to stress the particular importance which such reconsideration would have in permitting the reunion of many families.

"For its part, the Government of the United States reaffirms its readiness to grant entry to the United States of the persons who are the subject of this note through procedures consistent with those established in the Memorandum of Understanding of this date."

The third separate note was from the Swiss Embassy to the Cuban Foreign Ministry (complimentary introduction and close omitted):

"As the Embassy of Switzerland made clear during the course of the recent conversations which led to the Memorandum of Understanding on the movement of persons from Cuba to the United States, accepted by both Governments on November 6, 1965, the Government of the United States regards with special humanitarian concern the cases of those persons imprisoned in Cuba for offenses of a political nature. It had been the understanding and hope of the Government of the United States that the statement by the Prime Minister of Cuba on September 30, 1965 would encompass persons in this category who wished to leave Cuba to live in the United States.

"The Government of the United States regrets that at this time the Government of Cuba has not permitted political prisoners to be included under the terms of the Memorandum of Understanding. The Government of the United States expresses the hope that the Government of Cuba will be willing to reconsider this position. The Government of the United States wishes to stress the particular importance which such reconsideration would have in permitting the reunion of many families.

"For its part, the Government of the United States reaffirms its readiness to grant entry to the United States of such political prisoners through procedures consistent with those established in the Memorandum of Understanding of November 6, 1965."

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The final separate note, a response by the Cuban Foreign Ministry to the note initiated by the Swiss Embassy, read as follows:

"The Ministry of Foreign Relations presents its compliments to the Embassy of Switzerland, representing the interests of the United States of America in Cuba, and in acknowledging receipt of its note dated November 6, has the honor to inform it that the Cuban position on the matter is that expressed in its note of October 12 of the present year."

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Mr. HATHAWAY. You mentioned that the whole family could come in.

Mr. PALMATIER. They have to have someone here. It is a family reunion scheme.

Mr. HATHAWAY. The person here is not necessarily the sponsor in any way, and does not have to vouch for them?

Mr. PALMATIER. Not in the sense that he has to provide an affidavit of support, no. They are encouraged to do it, and many of them, of course, do provide for the needs of the new arrivals. It is a family reunion scheme, yes.

PHASES OF THE REFUGEE PROGRAM SINCE 1961

Mr. HATHAWAY. What are the mechanics of a person's getting into this program?

Mr. PALMATIER. In Cuba?

Mr. HATHAWAY. Yes. How do they avoid government harassment?

FIRST PHASE

Mr. PALMATIER. To divide the program into phases, if I may, between February 1961 and the missile crisis of 1962, there was commercial transportation between Cuba and the United States, and anyone who could get a visa waiver or a visa could come here, and many thousands did.

SECOND PHASE

Between the time of the missile crisis in October 1962 and December 1, 1965, there was no commercial transportation. All of the Cubans coming, the limited number who did come to the United States, came across the straits in small boats, rafts, and what have you.

THIRD PHASE

Then in late September 1965, Mr. Castro made a major foreign policy speech. It was quite obvious from the speech that the attention the world press was giving to the fact that so many people were willing to risk their lives to come across the straits was bothering him a great deal. In his speech he said—I am paraphasing it—"I declare to people in the United States who have a relative here or anyone wanting to leave the country, it is not necessary for them to take this route and risk their lives."

He invited any Cuban in the United States who had a relative in Cuba to come down by small boat to the Port of Camarioca to pick them up. Of course, chaos resulted after he made this announcement. It was like Dunkirk in reverse. Thousands of small boats were taking off for Cuba. There was a very heavy loss of life.

As a first action, President Johnson asked the Coast Guard to set up a kind of picket line to intercept the small boats once they left Cuba, in order to avoid the loss of life. It kept on.

Later on, President Johnson, who was signing the new Immigration Act, in October 1965, at the base of the Statue of Liberty made a speech in which he said those from Cuba who seek asylum here will find it. He directed the Department of State to negotiate an interna-

tional instrument, a memorandum of understanding, which would provide for the orderly movement of these relatives to the United States, rather than having them leave by small boat as they did before.

In Cuba, it was necessary for Cubans who had relatives here to sign up in order to leave. As far as we know, Castro permitted an open registration only through May or June, 1966, at which time he closed it. So, all of the people that we are now getting were signed up prior to that time.

As Mr. Roybal knows from testimony before another committee, all of the people who signed up to leave, the minute they did sign up to leave, their property was confiscated, their ration cards were taken away, they were thrown out of any type of job that they might have had and put to work in the canefields.

This is why most of us dealing with the program feel we have some type of moral obligation to take out at least those who signed up to leave.

Mr. HATHAWAY. Maybe they will not want to register when they find out what happens.

Mr. PALMATIER. We in HEW, of course, have no indication that that might happen, nor do I think the Department of State has.

SCREENING AND SURVEILLANCE OF REFUGEES

Mr. HATHAWAY. To what extent are these people screened?

Mr. PALMATIER. They are screened. They are screened by the Immigration Service and other Federal agencies before they arrive.

I will tell you how this works. From time to time we in HEW receive from the Department of State lists of persons that Castro is willing to let out. These are developed by the Cuban Government, turned over to the Swiss Embassy in Havana, and eventually we get them.

On these nominal rolls, the Cubans do list the person in the United States that they will be joining, and the address. They give identifying data on the family members who will be coming.

A screening of those names takes place in the United States. If the Immigration Service finds no reason for rejection, the Swiss Embassy in Havana is so notified, and eventually the person comes out.

So, there is a security screening that does take place prior to their arrival here.

Mr. HATHAWAY. Is there any surveillance after they come in? Do they have to report as aliens?

Mr. PALMATIER. All aliens have to report to the Immigration Service in January of every year. Although I am in HEW and not involved in that type of activity, I would have to assume there is a surveillance of some type once they are here, at least in cases where there might be some suspicion.

Mr. HATHAWAY. But no different than any other alien, I presume.

Mr. PALMATIER. I cannot answer the question.

Mr. HATHAWAY. Thank you very much.

Thank you, Mr. Chairman.

Mr. ROYBAL. Mr. McEwen.

Mr. MCEWEN. I want to preface my question by saying I have been delighted with all the reports I have heard on how well the Cuban

people have relocated themselves in this country and gone into the labor force and not the welfare roll.

AMOUNT OF WESTERN HEMISPHERE LIMITATION UTILIZED BY CUBANS

When we passed the Immigration Act in 1965, as you know, for the first time we placed a hemisphere quota on people in the Western Hemisphere coming into the United States, I found out, again, that you can get in trouble when you vote for something that passes, not when you vote against it.

My district is a Canadian border district. It borders on the Provinces of Quebec and Ontario in the Montreal and Quebec area. We have a substantial problem. You may have heard something about this. The number of Cubans coming in took such a large part of the hemisphere quota that we had to severely restrict Canadians who had heretofore been as free to come to this country as we were to go to theirs.

May I say this is a matter in which I have some historical interest, because had it not been possible, it would have been difficult for me to be born, because my mother came from the other bank of the Saint Lawrence River.

This presented real problems to our area. We got some relief here a year ago in the amendments.

For example, we had plants, branches of Canadian industries, that could not bring personnel in. We had something called the snowmobile that was invented, and the Bombardier Corp. wanted to put a branch plant in my district and could not bring people in.

I am in an area that is deep green on the EDA maps as having high unemployment. This has given us some real problems.

My question is this: What do you foresee as the numbers that we may be expecting of Cubans coming into this country this year and in the future? Will it remain at, I believe, 48,000 a year, approximately? Will it remain at that figure, or will it diminish?

Mr. PALMATIER. I would assume, sir, so long as the airlift continues, the number will remain in that vicinity, and you probably will have about 40,000 a year in the pipeline who will be adjusting their status from that of a parolee to a permanent resident and will be charged against the hemisphere limitation of 120,000.

Mr. MCEWEN. Approximately how many are in that category who are charged annually against the 120,000 hemisphere quota?

Mr. PALMATIER. I would have to check my own information for the record, because this is handled by State and Immigration, but I am of the opinion it is about 40,000 a year.

Mr. MCEWEN. In other words, it is taking approximately one-third of the whole hemisphere quota.

Mr. PALMATIER. That is my understanding; yes, sir, but I would have to doublecheck my figure.

(The information follows:)

In fiscal year 1969, Cubans utilized 8,444 places out of the Western Hemisphere limitation of 120,000. In fiscal year 1970, Cubans utilized 12,331 out of the total of 120,000. With continuation of the inflow of Cubans, however, the number could potentially rise, over a period of years, to approximately 40,000 annually.

Mr. McEwen. I may say to my colleagues on the committee that this presented some serious problems that some of us possibly were not too aware of in the Parliament in Ottawa. I happen to live just an hour's drive from there, and I am aware of that.

(Off the record.)

Mr. Palmatier. I think 2 years ago there was a bill introduced, and it passed the House, which would take the Cubans out of numerical limitations. It did not pass the Senate. I do not know whether it has been introduced again or not.

(Off the record.)

Mr. McEwen. That is all, Mr. Chairman. Thank you.

Mr. Passman. Mr. Shriver?

ASSISTANCE TO TWO NEW JERSEY SCHOOL SYSTEMS TO BE FUNDED UNDER IMPACTED AREAS AID PROGRAM

Mr. Shriver. On page 7 of your statement and in the justifications you mentioned a new method of funding the education assistance programs for Cuban refugees in Union City and West New York, N.J. They will be funded under the impacted area aid program. Is that correct?

Mr. Palmatier. Yes, sir.

Mr. Shriver. Do you know how much is involved in this for fiscal 1972?

Mr. Palmatier. I do not think, sir, in the final analysis, the amount will be much less than the $3 million we had asked for in our original 1972 proposal.

Mr. Shriver. How do you get money out of the impacted area aid program?

Mr. Palmatier. There was an amendment to the act——

Mr. Shriver. Which category, "A" students, "B" students?

Mr. Baker. They would be the "B" type students, the same as if one parent were working at a military base.

Mr. Shriver. Do you know what the percentage of entitlement was last year per student?

Mr. Baker. You mean for fiscal 1970 or 1971?

Mr. Shriver. 1971.

Mr. Baker. The Office of Education is estimating they will pay 73 percent of entitlement. This would have earned the two towns combined close to $2 million, based on an entitlement of about $2.6 million.

Mr. Shriver. You said a moment ago $3 million.

Mr. Baker. He was speaking about 1972, I believe.

Mr. Shriver. That will be larger in 1972?

Mr. Palmatier. While we continue to resettle a high number of Cuban refugees to Union City and West New York.

Mr. Baker. I can say, based on the President's budget, where the request was 40 percent of entitlement, it would be considerably lower. I understand the House committee has reported out a higher figure for impacted areas.

Mr. Shriver. I serve on that subcommittee, and that is why I am asking.

Mr. PALMATIER. This was an amendment in calendar year 1970.

Mr. BAKER. In April 1970.

Mr. SHRIVER. The amount of money you will be receiving in 1972 is what I am referring to.

Mr. BAKER. You mean from HEW?

USE OF FUNDS FROM IMPACTED AID PROGRAM RATHER THAN CUBAN REFUGEE BUDGET

Mr. SHRIVER. Yes; from the impacted area aid program. Would you recommend shifting all Cuban refugee elementary and secondary education assistance, including that for Dade County, to this type of funding?

Mr. PALMATIER. I would support such a recommendation if the formula and the percentage would permit a funding level similar to that now provided under our budget for Dade County.

The problem we have with the amendment is that it requires that 20 percent of a school district be Cuban children. The problem you have in Dade County is that it is a county school district, and while you have perhaps 40,000 Cuban children in the total district, which is a real impact, the percentage is, I believe, about 15 percent.

You will find in Dade County there are schools where almost every student is a Cuban, whereas if you take the entire county it is not that way.

Union City and West New York, N.J. are very small communities, and the percentage of Cuban enrollment is very high in the several schools that they have there.

MERGING WELFARE ASSISTANCE FOR CUBAN REFUGEES INTO REGULAR WELFARE PROGRAMS IF FEDERALIZED

Mr. SHRIVER. If the Federal Government were to take over the States' welfare program, as has been suggested here on the Hill by many, would you suggest that this Cuban program be assimilated in the regular program?

Mr. PALMATIER. We would very strongly support that. We feel there is, at the present time, a type of artificial distinction between the Cuban who is a member of the community, who is paying taxes and has really become more or less integrated.

As a matter of fact, we would rather hope if the family assistance plan does pass, we could integrate the Cubans into it.

AVAILABILITY OF ECONOMIC DATA CONCERNING CUBAN REFUGEES

Mr. SHRIVER. Has the committee been furnished with a survey of economic data on Cubans in the United States?

Mr. PALMATIER. If we have not, we can submit it to the committee. You mean the First Research Corporation study?

Mr. SHRIVER. Yes.

Mr. PALMATIER. We will see that a copy is made available, sir.

Mr. SHRIVER. What are the reasons so many refugee children are switching to private schools in Dade County?

Mr. PALMATIER. Busing requirements was the primary reason according to school officials. The number of non-Cuban children who transferred to private schools was much larger.

Mr. SHRIVER. Do any of these funds go to support these pupils?

Mr. PALMATIER. No, sir.

Mr. SHRIVER. That is all, Mr. Chairman.

Mr. PASSMAN. Thank you, Mr. Shriver.

REPROGRAMING BETWEEN EDUCATION AND WELFARE

Mr. PASSMAN. Several weeks ago we received the fiscal year 1972 justifications for the Cuban refugee program. Two days ago we received a revised copy of these same justifications. In the revised justifications, I note that the "Education" activity was reduced by $8 million and the "Welfare Assistance and Services" activity was increased by the same amount. Could you please tell the committee why this change of funding levels for these activities was made?

Mr. PALMATIER. There has been a reprograming item, in both 1971 and 1972. This relates to the fact that $4.4 million from the "Education" activity (school assistance for Dade County) is not expected to be required for that purpose in 1971. It has been reprogramed into the "Welfare" activity because reimbursement claims from the States have exceeded those in the budget, primarily because of higher average monthly payments to and on behalf of needy refugees: instead of $98 as anticipated, based on data for the first 6 months of fiscal year 1971, the average monthly payment for the fiscal year is expected to be about $107. The estimated number of recipients is expected to hold.

In fiscal year 1972, the estimate for school assistance to Dade County was lowered by $5 million, due to the same reasons that led to the 1971 decreases—fewer Cuban children in the public school system due to transfer to private schools. An additional $3 million reduction was achieved in 1972 from the "school assistance" item by discontinuing assistance from this budget to two school systems in New Jersey which had received aid in fiscal year 1971 for the first year under this budget. The 1971 aid was provided by us because funds had been specifically requested and appropriated for this purpose. However, for fiscal year 1972, there is other legislation that covers the New Jersey school impact situation which was enacted as an amendment to Public Law 81–874 in April 1970 (after our 1971 request). The authority and funding to be used is that for school assistance to federally affected areas, generally referred to as SAFA which is administered by the Office of Education. The $8 million reduced from this school assistance item has been reprogramed to the welfare activity for the same reason giving rise to the need for additional welfare funds in 1971—higher monthly payments than anticipated.

Mr. PASSMAN. You indicate that the school assistance is no longer needed in fiscal year 1972 for Union City and West New York, N.J., because Public Law 81–874 was amended to provide assistance for

impact aid to school districts affected by increased Cuban refugee attendance which will be funded by the Office of Education. This accounts for a $3 million reduction in the "Education' activity; where did you say the other $5 million reduction will come from?

Mr. PALMATIER. Sir, we reduced the estimate for assistance to Dade County public schools by $5 million due to a smaller enrollment of Cuban refugee children that we are experiencing in the current year.

Mr. PASSMAN. Why didn't you reduce your request by $8 million instead of increasing the "Welfare assistance and services" activity by $8 million?

Mr. PALMATIER. The higher costs we are experiencing for the welfare item started in the fall of 1970. If we had not been able to reprogram additional funds for this purpose from other items, a supplemental request for fiscal year 1971 and an amended budget for 1972 would have been necessary to provide sufficient funds for reimbursing the States for welfare costs incurred on behalf of Cuban refugees.

Mr. PASSMAN. How can you be sure your new estimates for average monthly payments for assistance to refugees are any more accurate than the estimates you submitted 2 weeks ago?

Mr. PALMATIER. The estimates submitted 2 weeks ago were actually prepared in the fall of 1970 and were used as the basis for the submission in mid-December for the President's 1972 budget. Some rapid rises in cost trends, particularly for medical care, which were not available from the States when the justification in support of the President's budget was prepared have come to light in the past few weeks. The additional information we now have on which to base our estimate data is due in part to the increased emphasis we have placed on getting States to submit their claims for reimbursement more quickly. There are so many factors affecting the need for welfare and medical assistance, and the amount of such assistance, that it is difficult to predict precisely. I believe, however, that our current estimates are the best that we can make at this time.

Mr. PASSMAN. It appears you just needed to find a place to put the $8 million you saved on the "Education" activity and "Welfare assistance" was the elected activity, is that correct?

Mr. PALMATIER. No sir. We have not only analyzed our estimates for Cuban refugee welfare assistance carefully, we have examined trends in expenditures for public assistance and medical care for needy U.S. citizens, which are rapidly increasing. I firmly believe our revised estimate is still on the conservative side.

NUMBER OF CUBAN REFUGEES RECEIVED, BY WEEK, CALENDAR YEAR 1970

Mr. PASSMAN. Tell me how many refugees we received last year and insert for the record a breakdown on a weekly basis.

Mr. PALMATIER. The total number of refugees arriving by airlift as well as those registered by the program that came by other means, during calendar year 1970 was 45,727.

The weekly breakdown follows:

NUMBER OF CUBAN REFUGEES RECEIVED, BY WEEK, CALENDAR YEAR 1970

Week ending		*Week ending*	
January:		July:	
2	587	2	715
9	921	10	925
16	993	17	791
23	910	24	972
30	948	31	656
February:		August:	
6	893	7	1,015
13	901	14	910
20	949	21	913
27	725	28	906
March:		September:	
6	913	4	915
13	937	11	719
20	929	18	897
27	906	25	898
April:		October:	
3	914	2	882
10	899	9	902
17	919	16	904
24	918	23	853
May:		30	909
1	692	November:	
8	900	6	893
15	879	13	744
22	910	20	886
29	699	27	707
June:		December:	
5	907	4	916
12	881	11	712
19	884	18	883
26	909	24	735
		31	746
		Total	45,727

NUMBER OF REFUGEES RECEIVING WELFARE AND NUMBER IN FAMILIES THAT ARE SELF-SUPPORTING

Mr. PASSMAN. Please provide an updated comparison like that which appeared on page 76 of last year's hearings showing the number of refugees which are self-supporting.

Mr. PALMATIER. Yes, sir.

(The information follows:)

CUBAN REFUGEE PROGRAM: NUMBER OF PERSONS REGISTERED WITH THE PROGRAM AND THE NUMBER RECEIVING WELFARE ASSISTANCE AND SERVICES

June of—	Total number of registrations	Number receiving welfare assistance and services	Percent of registrations receiving assistance	Total number in families that are self-supporting	Percent of registrations self-supporting
1961	29,628	13,756	46.4	15,872	53.6
1962	122,212	55,084	45.1	67,128	54.9
1963	165,523	53,170	32.1	112,353	67.9
1964	172,572	32,110	18.6	140,462	81.4
1965	177,599	21,588	12.2	156,011	87.8
1966	207,147	19,882	9.6	187,265	90.4
1967	250,519	29,346	11.7	221,173	88.3
1968	290,353	39,370	13.6	250,983	86.4
1969	332,692	52,740	15.9	279,952	84.1
1970	379,229	66,178	17.5	313,051	82.5
1971 estimate	427,229	82,378	19.3	344,851	80.7
1972 estimate	475,229	99,778	21.0	375,451	79.0

PERCENT OF REGISTERED CUBAN REFUGEES AND PERCENT OF AMERICANS RECEIVING WELFARE

Mr. PASSMAN. What percentage of the total number of refugees registered are now on the assistance rolls?

Mr. PALMATIER. As of December 31, it was 18.8 percent.

Mr. PASSMAN. Is this percentage increasing over last year?

Mr. PALMATIER. Yes, it has been gradually increasing. This has been happening in the domestic public assistance programs, too. Some of this increase has resulted from improvements in the domestic program; and since the assistance to refugees follows the domestic program, this factor has also affected refugee assistance.

Mr. PASSMAN. How does this percentage compare to the percentage of Americans on the welfare rolls?

Mr. PALMATIER. It is difficult to make a meaningful comparison, Mr. Chairman. The number of registered Cuban refugees increased by over 11 percent between December 1969 and December 1970, and the percent receiving welfare increased by 2 percent over this 12-month period. With regard to the domestic welfare programs, during this same period the U.S. population increased by about 1 percent, and the percent of the U.S. population receiving welfare under the regular public assistance programs increased by 1.3 percent.

The specific data on the regular welfare rolls show that in December 1969 payments under the federally aided public assistance programs and the program of general assistance (all State/local funding) went to 11.1 million persons, and medical bills were paid for another 1.3 million persons not receiving cash assistance. These 12.4 million represented 6.1 percent of the total U.S. civilian population of 203.8 million persons at that time. Comparable data a year later for December 1970, show 13.8 million persons receiving cash assistance and another 1.5 million persons requiring medical assistance only, with this 15.3 million persons representing 7.4 percent of the 205.9 million persons estimated as the U.S. civilian population in December 1970. (The percentage, of course, is much higher in various areas, especially some of the large cities.)

In terms of the actual numbers receiving public assistance, Mr. Chairman, 26 percent more Cuban refugees required assistance in De-

cember 1970 than in December 1969; during this same period, recipients in the domestic public assistance programs throughout the United States increased by 23 percent. When we consider that in this period the number of registered refugees increased by 11 percent and the U.S. population increased by only 1 percent, I think the record looks good.

REFUGEES RETURNED TO CUBA

Mr. PASSMAN. How many Cuban refugees have returned to Cuba since the inception of this program?

Mr. PALMATIER. We have been advised that approximately 450 persons have requested permission to return to Cuba, and that they have been mostly aged persons with close family members still in Cuba. Some additional Cubans are believed to have returned to Cuba through third countries, but the number is estimated to be very small.

Mr. PASSMAN. Would you please insert the table appearing on page 10 of the justification?

Mr. PALMATIER. Yes, sir.

(The information follows:)

REGISTRATIONS AND RESETTLEMENTS AT VARIOUS TIME INTERVALS

	Number of persons registered [1]	Number of persons resettled
Pre-airlift period (January 1961 to Dec. 1, 1965)	183,496	94,908
Airlift period:		
Dec. 1, 1965, to June 30, 1969	149,196	125,866
Fiscal year 1970	46,537	30,173
Fiscal year 1971, estimate	48,000	32,000
Fiscal year 1972, estimate	48,000	32,000
Subtotal, airlift period	291,733	220,039
Total, January 1961 to June 30, 1972	475,229	314,947

[1] Registration of the refugee with this program has never been mandatory, but it is required in order to be eligible to receive assistance from it. In the early days many refugees did not register; currently, virtually 100 percent of new arrivals register.

REFUGEES NOT REGISTERED WITH PROGRAM

Mr. PASSMAN. You indicate on page 10 that in the early days many refugees did not register under this program. If they did not register, would they be eligible to participate in the program?

Mr. PALMATIER. No, sir.

Mr. PASSMAN. Do you have any idea how many unregistered refugees are in the United States?

Mr. PALMATIER. The estimate is about 150,000, Mr. Chairman.

Mr. PASSMAN. Could these refugees be on the State welfare rolls and be unknown to your organization?

Mr. PALMATIER. I think it is very unlikely, Mr. Chairman. Most of the early refugees who did not register remained in Miami. They were able to become self-supporting and never needed assistance from the program. They could, even today, come into the Refugee Center and register if they found they needed help. And if they qualified and were to receive assistance, they would be known to us. There were also some early refugees who did not register with us and, on their own initiative, went on from Miami to some other city.

These would be people who were self-sufficient in Miami, had enough resources to resettle themselves, and were responding to better opportunities somewhere else. There is always a chance that someone in this general category has had to apply for assistance somewhere else and is receiving it under a regular State welfare program. But I feel that the chances tend to be very slight, because if there were any appreciable number, I feel certain we would have been hearing from the States over the years; they would have wanted to try to arrange to seek the 100 percent reimbursement we provide which is not provided in the regular domestic welfare programs.

SELF-SUPPORTING REFUGEE THAT MAY BECOME UNABLE TO CONTINUE TO SUPPORT HIMSELF

Mr. PASSMAN. If a refugee is able to support himself initially but then becomes disabled and requires welfare assistance, this program has to reimburse the State for such assistance, is that correct?

Mr. PALMATIER. Yes, sir, that is the policy.

OLD AGE AND ILL HEALTH OF REFUGEES

Mr. PASSMAN. Could you tell the committee what percentage of last year's refugee arrivals were too old or unable to work at all and had to be placed on the welfare rolls permanently?

Mr. PALMATIER. Mr. Chairman, I believe the data we have that would most closely relate to this is the age breakdown of the airlift arrivals. In 1970, 7.4 percent of the airlift arrivals were over 65 years of age, and 3.9 percent were between 61 and 65. This represented a decrease, incidentally, as compared with the 1969 figures of 8.2 percent and 4.0 percent, respectively. Taking age, disabilities, and language handicaps among the older people into consideration, I would estimate that possibly 9 or 10 percent of the arrivals in 1970 could be expected to have to depend on financial assistance permanently. I want to emphasize that many of the older people do become self-supporting; in fact, some are quite remarkable. It is because we lack other types of data from the States that we have to relate this kind of estimate to age and to the fact that disabling conditions often accompany more advanced age. We do have new data for Miami on the length of time refugees have been on assistance, and I would like to submit that for the record.

A special analysis was made of the total refugee caseload receiving financial assistance in Miami as of February 1971. It showed that, among those refugees receiving assistance, 31 percent had been on assistance less than a year (14 percent less than 6 months); 17 percent between 1 and 2 years; 13 percent between 2 and 3 years; 14 percent between 3 and 5 years; and 26 percent over 5 years. (Figures add to 101 percent due to rounding.) Of the group on assistance for more than 5 years, 76 percent were over 65 years of age and 20 percent were between 50 and 65.

WELFARE INCREASE IN FLORIDA

Mr. PASSMAN. On page 13 of the justifications, you indicate that the average number of persons on assistance rolls in Florida will jump by

6,600 in fiscal years 1971 and 1972. What accounts for these large increases?

Mr. PALMATIER. Again, Mr. Chairman, we are seeing the cumulative effect of the constantly growing Cuban refugee population. This, coupled with the fact that each year some of those who have previously been able to support themselves become too old or disabled to continue to be completely self-supporting, results in this increase in the number who must rely on public assistance in Florida.

INCREASE IN AVERAGE MONTHLY PAYMENT IN FLORIDA

Mr. PASSMAN. On the same page, I notice that the average cost per person per month will increase from $41 in fiscal year 1971 to $53 in fiscal year 1972. Please explain this large increase?

Mr. PALMATIER. The $12 increase in the estimated average monthly payment is because, beginning July 1, 1971, the policy in effect since the early 1960's placing a monthly maximum on financial assistance payments to needy Cuban refugees in Florida—$60 per one person case and $100 per family case regardless of size—will be changed. The $53 payment level will more nearly correspond to standards used in Florida's regular public assistance programs for U.S. citizens, which have been raised periodically; it will also extend to Florida a policy more in keeping with that followed in other States in determining the level of assistance to Cuban refugees—that is, comparability with regular U.S. programs. This action recognizes the continued cost-of-living increases and the ensuing hardships placed upon the needy as they struggle to achieve the bare minimal essentials of living. It supports the action of officials of Florida's Department of Public Welfare who have also urged that welfare grants for needy Cuban refugees be increased.

UNACCOMPANIED CHILDREN

Mr. PASSMAN. Concerning your program for care of unaccompanied children, how are these children able to leave Cuba without their parents or come to the U.S. without having some family member in this country?

Mr. PALMATIER. Most of the unaccompanied children arrived in the United States during the early years of the program when they were able to leave on commercial air flights—over 13,000 altogether, of whom about 8,000 required federally financed care for varying periods of time. When the airlift started, we had about 1,800 unaccompanied children under federally financed care. The number is now down to about 300. Some still arrive on small boats, escaping illegally from Cuba with persons other than their parents, or sometimes through another country, but not very many.

CUBAN DEMONSTRATIONS

Mr. PASSMAN. Have we had any trouble with the Cuban refugees with respect to demonstrations against the United States or its policies?

Mr. PALMATIER. Practically none, Mr. Chairman. But as I recall, there have been a few protests from time to time by militant exile groups in favor of a more aggressive policy toward Cuba.

SURPLUS FOOD

Mr. PASSMAN. You indicate that 76 percent of the refugees receiving financial assistance in Miami received surplus food in fiscal year 1970. Why didn't the other 24 percent receive surplus food?

Mr. PALMATIER. Some do not have cooking facilities, sir; they may be living in single rooms, and cooking facilities is one of the requirements. Or they may be older persons living with their children and grandchildren, and the children provide the food. Or they may find it too difficult to get out to the commodity distribution center. We tell people that the commodities are available, but if they don't really want them, we don't encourage them to accept them. We want the commodities to go where they're really needed and where the people will make full use of them. The people who accept the commodities find them truly helpful and do make complete use of them.

INCREASES IN HOSPITALIZATION COSTS

Mr. PASSMAN. I note you estimate that the average daily cost of all persons hospitalized will increase from $83.20 in 1970 to $99.50 in 1972. What accounts for this large increase?

Mr. PALMATIER. Of the total increase of $16.30 estimated for the 2-year period, two-thirds of it relates to fiscal year 1971—that year's estimate is $94.00 or 13 percent over 1970; only one-third of the increase (6 percent over 1971) was estimated for 1972. The 1971 estimate, which reflects actual operating experience during the fiscal year, appears to be pretty accurate. Florida, like the rest of the Nation, has been experiencing unprecedented rises in the cost of medical services. The smaller increase of 6 percent projected for 1972 is in line with general price increases projected for areas other than medical care; it reflects our belief that increases that have been occurring in the medical care area will not continue to rise so sharply. You understand, Mr. Chairman, that these average daily hospitalization rates are all inclusive—that is, they cover the cost of all items of services received by a person hospitalized.

HELP FROM RELATIVES

Mr. PASSMAN. Do you have any way of forcing Cuban families already located in the United States to help a refugee who is not able to work and is a member of the family if the family is financially able?

Mr. PALMATIER. No, sir; we do not. It would depend on the relative-responsibility provisions that a State has in its welfare programs. However, as you know, Mr. Chairman, the Cubans have a strong sense of family responsibility, and a strong feeling of pride, and from all we can observe the families in most cases do their best to help their other family members.

Mr. PASSMAN. You indicate on page 16 of the justifications that assistance is given to refugees who become needy because of expenses neither he nor the sponsor can handle. Is it not true that the sponsor is sometimes still able to help but the refugee applies for assistance anyhow?

Mr. PALMATIER. This might happen, but all indications are that it would be very infrequent. In many instances, the Cuban family that

the newly arriving refugee joins is barely established and not in a position to be of much direct economic help.

Mr. PASSMAN. How would you handle such a case? Do you make your own investigation and determine if the refugees or sponsors could still manage without assistance?

Mr. PALMATIER. This phase of the program is handled by State and local welfare staff. They consider whatever resources are available to a Cuban refugee in determining need on the same basis as for a U.S. citizen. These staff are also responsible for the same type of investigation and other forms of monitoring—for example, the quality-control program—as are used for the domestic programs to assure that only eligible persons receive assistance in the correct amount.

INCREASING PERCENTAGE OF RESETTLED REFUGEES REQUIRE ASSISTANCE

Mr. PASSMAN. Why has the percentage of refugees requiring assistance in States other than Florida been on the increase since fiscal year 1967?

Mr. PALMATIER. The reasons are similar to those I mentioned regarding the increase in Florida. It is a cumulative effect of the constantly growing number of refugees in the United States. In addition to those newly arriving refugees who have to rely on assistance until they can become established, there are a number of refugees, who had arrived earlier, who for various reasons, such as age or ill health, who are not able to remain completely self-supporting. The increases outside Florida also reflect the fact that close to three-fourths of the refugees are resettled immediately after their arrival in the United States. This was part of the Federal Government's commitment to Florida and to Dade County when the airlift was initiated, and it also reflects our commitment to enable the refugees to join their relatives as quickly as possible. This does mean that refugees are resettled who have not had the opportunity—as others did in the early part of the program—to enroll in English and vocational training in Miami, and it means that it is likely to take them somewhat longer to get started in the new community. But, on balance, I believe this is the best way to be responsive to the commitments to Florida, to the refugees, and to their families, and lays the best foundation for their future.

NUMBER OF RESETTLED REFUGEES AND NUMBER AND PERCENT REQUIRING ASSISTANCE

Mr. PASSMAN. Please place in the record the table appearing on page 16 of the justification.

Mr. PALMATIER. Yes, sir.

(The information follows:)

	Cumulative number of resettled refugees	Refugees requiring assistance in States other than Florida	
		Number	Percent of column 1
June 30, 1967	153,390	9,258	6.0
June 30, 1968	189,156	17,754	9.4
June 30, 1969	220,774	25,002	11.3
June 30, 1970	250,947	33,610	13.4
June 30, 1971 (estimate)	282,947	43,210	15.3
June 30, 1972 (estimate)	314,947	54,010	17.1

TRAINING OF REFUGEES

Mr. PASSMAN. Mr. Palmatier, you mention that one of the reasons for this increase is because about 70 percent of airlift arrivals are immediately resettled and do not receive training as others do in Miami. If this is the case, why don't you require these people to enroll in training immediately upon resettlement?

Mr. PALMATIER. The voluntary agencies and the State welfare agencies do make real efforts to get people into training where it's needed. Also, by making loans available for shorter term training, as we hope to do in 1972—following the lead of the Office of Education in the domestic programs—we hope to enhance the training opportunities. One of the problems in various locations is that not enough training opportunities are available. Another is that the refugees are not eligible for the Work Incentive, or WIN, program because those who have to have assistance are not on the regular AFDC program, which is a requirement for WIN. This is one of the reasons we are looking toward welfare reform—to help open up more training opportunities.

Mr. PASSMAN. Are you able to eliminate people who refuse to enroll in such training from the assistance rolls?

Mr. PALMATIER. Yes, sir. This has been our policy since the early years of the program. And if a person needs some health service or rehabilitative service before he can enroll in training or hold down a job, we arrange that. I must say too, sir, that the refugees want to have training and to be self-sufficient. We've had a lot of enthusiasm about training, and very little reluctance.

MODE OF TRAVEL FOR RESETTLING REFUGEES

Mr. PASSMAN. You indicate on page 18 of the presentation that some of the increase for "Resettlement" costs is because of the 8-percent tax levied on air travel. Do you use only air transportation to relocate these refugees throughout the United States? And if so, don't you think you could use some cheaper type of transportation?

Mr. PALMATIER. Where a refugee is being resettled close to Miami—for instance, some refugees join relatives in other parts of Florida—we use commercial buslines. But where it's a long distance involved, such as to California, New York, New Jersey, Massachusetts, or Illinois, the quickness of the air transportation offsets the en route costs we would have—meals and so on, possibly overnight accommodations in some—if we used buses or trains. Also, the refugees are usually in a state of some sort of shock when they arrive on the airlift; they've been waiting so long in Cuba, and suddenly it has happened and they're in the United States, and we feel it's important to get them reunited with their relatives and get the adjustment process started as quickly as possible. We do use the cheapest air accommodations available.

ASSISTANCE TO PUBLIC SCHOOL SYSTEMS

Mr. PASSMAN. What new policy changes have been negotiated with Dade County school officials?

Mr. PALMATIER. We have phased out completely any assistance on behalf of children who arrived before the airlift influx started. Last

year, the Federal contribution to the operating cost was decreased from 60 percent to 50 percent for those arriving in the new influx. And this year we have also begun to experience the effect of the provision in the agreement that assistance to the school system is granted only on behalf of the children who have been in schools in the United States for less than 5 years, since we've passed the 5-year mark since the airlift began.

Mr. PASSMAN. How much will be paid from this program to the Dade County school system for the cost of school construction in fiscal years 1971 and 1972?

Mr. PALMATIER. The estimate for 1971 is $1,910,000 and for 1972, $1,226,000.

Mr. PASSMAN. How much is provided in this fiscal year 1972 request for educational assistance to the Union City and West New York, N.J., school systems?

Mr. PALMATIER. Sir, this request does not include any funds for the two New Jersey school systems for 1972. Both systems, however, will be eligible for funds under Public Law 81–874; that is the legislation administered by the Office of Education pertaining to school assistance to federally affected areas, or SAFA as it is often called.

Mr. PASSMAN. Have any new school systems applied for or been added this year to the education assistance program because of large refugee enrollments?

Mr. PALMATIER. The Office of Education has advised us that the Weehawken, N.J., school system has applied under the refugee provisions contained in the law regarding school assistance to federally affected areas, and is expected to qualify. No funds are included in our request for this purpose. If Weehawken qualifies, it would be funded out of the regular SAFA program as will Union City and West New York in 1972.

Mr. PASSMAN. Does it appear this type of assistance could snowball, since last year was the first year this type of assistance was provided to other school systems?

Mr. PALMATIER. The provision in the SAFA law requires that 20 percent of the enrollment in a school system consist of refugee pupils. I am not aware of any school systems other than the three in New Jersey that are about to meet this percentage requirement, but it is true that, over time, with the continuation of the airlift, other school systems could be expected eventually to qualify.

Mr. PASSMAN. What are the terms of the student loans provided to the Cuban refugees?

Mr. PALMATIER. Undergraduate students may borrow up to $500 per semester or $1,000 per academic year; graduate or professional students may borrow up to $2,500 per academic year. The students sign promissory notes to repay principal plus accrued interest at 3 percent over a 10-year period beginning one year after termination of full-time study. Loans are arranged through participating institutions approved by the U.S. Office of Education, and repayments are made directly to that Office.

Mr. PASSMAN. You indicate loans were made to about 4,700 students in fiscal 1970. How many individuals applied to receive these loans in the same year?

Mr. PALMATIER. Sir, we have been advised by the Office of Education that it does not have such information nor does it require participating institutions to accumulate or maintain data on students denied loans for various reasons. The loan funds are sent to the institutions on the basis of their requests, which include estimates at that point on the number of borrowers and the amounts because of the leadtime the institution must have before the actual loan is processed. Since the loans are made only to those whose families are determined to be unable to finance the student's education, and at the minimum amount necessary, I would have to assume there are a number of applicants for loans who are not found eligible. There are of course those, just as among the U.S. citizens, who have applied at institutions which at the time had not been approved by the Office of Education for participation in the loan program administered under the National Defense Education Act, which approval, as you know, governs the eligibility of institutions to participate in the loan program for Cuban refugees. We also understand that since the initiation of loans for vocational and technical training in the regular U.S. program in fiscal 1971 (and we are requesting loan funds for this purpose in 1972), some Cuban refugees have already requested such loans and have been turned down.

SWISS REPRESENTATION IN CUBA

Mr. PASSMAN. What services are performed by the Swiss Government at an estimated cost of $180,000 in fiscal year 1972? Why don't they donate their services?

Mr. PALMATIER. Mr. Chairman, as you know, this is a matter which comes under the jurisdiction of the Department of State and the funds are transferred to State for this purpose, as well as for other aspects of the airlift arrangements. With regard to the services provided by the Swiss Government, I would like to provide a statement for the record from the State Department.

(The information follows:)

The Department of State has provided the following information: "The Swiss Government through its Embassy in Havana, represents U.S. interests in Cuba. The Swiss Embassy performs a variety of services in carrying out this representation. One of the more important of these services is administrative support provided the Cuban refugee airlift in Havana and Varadero, Cuba. The estimated cost of $180,000 cited in the question is the estimated cost of salaries and expenses that will be incurred by the Swiss Embassy in Havana in support of the airlift during 1972. This support includes, for instance, the processing of registrations for the airlift, keeping and updating records of these registrations, and dealing with the Cuban Government on matters related to the physical operation of the airlift itself. The United States contracted with the Swiss Government for the representation of its interests in Cuba after the break in diplomatic relations between the United States and Cuba on January 3, 1961. The United States reimburses the Swiss Government for all expenses incurred in such representation. On a worldwide basis, the United States reimburses five foreign countries for the representation of our interests in six countries with which we do not have diplomatic relations."

RELOCATION OF AIRPORT FACILITIES USED TO PROCESS AND HOUSE REFUGEES ARRIVING BY AIRLIFT

Mr. PASSMAN. Have you found a location for the reception and dormitory operation since the facilities at the Miami International Airport will be unavailable as of October 31, 1971?

Mr. PALMATIER. No, sir, not yet.

Mr. PASSMAN. Gentlemen, thank you very much. We will have a good, close look at this. We want to do the right thing.

The committee will adjourn.

MONDAY, APRIL 5, 1971.

DEPARTMENT OF STATE

MIGRATION AND REFUGEE ASSISTANCE

WITNESSES

FRANCIS L. KELLOGG, SPECIAL ASSISTANT TO THE SECRETARY OF STATE FOR REFUGEE AND MIGRATION AFFAIRS

CLEMENT J. SOBOTKA, CONSULTANT ON REFUGEE AND MIGRATION AFFAIRS

FRANK M. BRYAN, BUDGET AND FISCAL OFFICER, OFFICE OF REFUGEE AND MIGRATION AFFAIRS

RICHARD W. MURRAY, DIRECTOR, BUDGET PLANNING AND PRESENTATION, DEPARTMENT OF STATE

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Program by activities:			
Contribution to Intergovernental Committee for European Migration	3,500	3,250	3,250
Contribution to United Nations High Commissioner for Refugees	1,000	1,000	1,000
Refugees from European Communist countries	3,700	3,200	2,900
Refugees from Communist China	500	500	500
Contribution to International Committee of the Red Cross	50	50	50
Administration	982	860	950
1969 program funds obligated in 1970	2,050	.....	.....
1970 program funds obligated in 1971	−2,715	2,715	.....
1970 program funds used for 1971 program	1,600	−1,600	.....
Total obligations	10,667	9,975	8,650
Financing:			
Unobligated balance available, start of year	−2,050	−2,715	.....
Unobligated balance transferred from other accounts	−2	.....	.....
Unobligated balance transferred to other accounts	2	.....	.....
Unobligated balance available, end of year	2,715	.....	.....
Budget authority	11,332	7,260	8,650
Budget authority:			
Appropriation	5,571	5,649	8,650
Pay increase (Public Law 91-305)	9	.....	.....
Transferred from other accounts	5,752	1,574	.....
Appropriation (adjusted)	11,332	7,223	8,650
Proposed supplemental for civilian pay act increases	.....	37	.....
Relation of obligations to outlays:			
Obligations incurred, net	10,667	9,975	8,650
Obligated balance, start of year	1,545	2,426	2,264
Obligated balance, end of year	−2,426	−2,264	−3,114
Adjustments in expired accounts	−38	.....	.....
Outlays, excluding pay increase supplemental	9,748	10,100	7,800
Outlays from civilian apy act supplemental	.....	37	.....

Note: After the budget was submitted, H. Doc. 92-93 was transmitted to Congress containing $40,000 in increased pay costs for fiscal year 1972.

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 est.	1972 est.
Personnel compensation:			
Permanent positions	548	588	586
Positions other than permanent	10	13	14
Other personnel compensation	27	17	13
Total personnel compensation	585	618	613
Personnel benefits: Civilian employees	81	85	87
Travel and transportation of persons	15	20	21
Transportation of things	1	1	1
Rent, communications, and utilities	6	9	9
Other services	5,859	4,936	3,613
Supplies and materials	2	2	2
Equipment	17	4	4
Grants, subsidies, and contributions	4,100	4,300	4,300
Total obligations	10,667	9,975	8,650

PERSONNEL SUMMARY

Total number of permanent positions	48	46	44
Full-time equivalent of other positions	1	1	1
Average number of all employees	44	44	43
Average GS grade	8.8	8.9	9.0
Average GS salary	$13,368	$13,424	$13,640
Average grade and salary rates established by the Foreign Service Act of 1946 (22 U.S.C. 801–1158):			
Average grade:			
Foreign Service officer	3.9	4.2	4.0
Foreign Service reserve	2.8	2.5	2.0
Foreign Service staff	5.4	4.2	5.0
Average salary:			
Foreign Service officer	$18,939	$19,374	$20,110
Foreign Service reserve	$25,822	$27,165	$30,182
Foreign Service staff	$13,081	$15,163	$13,926
Average salary in foreign countries (local rates)	$4,510	$4,759	$4,878

Mr. PASSMAN. The committee will come to order.

We shall consider this afternoon the fiscal year 1972 request for the migration and refugee assistance program of the Department of State. We have as witnesses Mr. Francis L. Kellogg, Special Assistant to the Secretary of State for Refugee and Migration Affairs, Mr. Clement J. Sobotka, Consultant on Refugee and Migration Affairs; Frank M. Bryan, Budget and Fiscal Officer, Office of Refugee and Migration Affairs; and Richard W. Murray, Director, Budget Planning and Presentation, Department of State.

I believe, Mr. Kellogg, you have a statement you would like to present to the Committee in defense of this item.

Mr. KELLOGG. Yes, sir.

GENERAL STATEMENT

Mr. Chairman and members of the committee, I welcome the opportunity to appear before you in support of the Department of State's appropriation request for migration and refugee assistance in the amount of $8,650,000 for fiscal year 1972.

I would like to say, at the very outset, that this is my first appearance before a committee of the Congress and, in addition, my Government experience is limited to a few short weeks as I assumed office on January 19.

I mention my brief experience as special assistant for refugee and migration affairs because it may be difficult for me, in answering your

questions, to be as precise and specific as I otherwise would wish to be. As a private citizen, however, I have had a deep personal interest in humanitarian and refugee problems for the past decade and I am now challenged by being officially concerned with helping to resolve these problems. From my previous association with the voluntary agencies, I know how vital is the assistance given under this appropriation. Since a detailed justification for this request has already been furnished you, my remarks here will be confined to highlighting the more important aspects of the refugee and migration programs funded under this appropriation and to speaking of more recent developments in this field.

CONTINUED NEED FOR REFUGEE ASSISTANCE

Although we wish we could report that the size of refugee problems has diminished markedly in the past year, the fact is that this has not happened. A new life, free from fear and repression, continues to be the hope of thousands who leave their homelands in search of it. To meet the needs for assistance created by this exodus, we must continue our programs of assistance.

Mr. Chairman, the programs funded under this appropriation fill distinct humanitarian needs which are in the U.S. interest to meet. No less today, than in the past, must our country show the world that we are prepared to succor those fleeing persecution and inhumanity. To do less would be to negate our long record and tradition of assistance in this field, diminish the importance of our country's role in international affairs and responsibilities, and abet those oppressors who wish to discourage the search for freedom. As long as men are held in political bondage, the United States must be prepared to do its share to assist those who flee.

Because there is no plan to request a Presidential Determination Order in the current year or in 1972, we are requesting $8,650,000 which is our most accurate and careful estimate of the requirements for 1972. In the following brief description of the refugee programs, I will attempt to explain why this request is felt to be necessary.

UNITED STATES REFUGEE PROGRAM (USRP)

Mr. Chairman, we estimate that $2,900,000 will be needed for the *United States Refugee Program* (USRP) for 1972, based on an expectation of assistance to approximately 34,000 refugees from Eastern Europe during that year. This program is operated directly by the Department of State. While the flood of refugees from Czechoslovakia has slowed, conditions in Eastern Europe remain harsh for many citizens, and the flow continues westward. Experience has shown that the exodus of refugees from Eastern Europe is not always predictable and can be increased suddenly and greatly by unforeseen events.

Working through experienced American and international voluntary agencies, USRP is able to insure that early supplemental assistance for care and maintenance and—most importantly—for resettlement processing is rendered to refugees at critical stages on their way to a new life. We estimate that there will be 13,000 new refugees need-

ing that assistance in 1972 in addition to the approximately 21,000 persons who are expected to be on the USRP caseload at the beginning of 1972. This is a valuable opportunity for the United States to contribute to the reestablishment of refugees in a manner which identifies our interest in them.

I think, at this juncture, it is important to point out that the countries of first asylum bear the largest share of expense and that USRP serves as a supplemental link and support for refugees moving to a new life.

FAR EAST REFUGEE PROGRAM (FERP)

With respect to the Far East Refugee Program (FERP), we estimate that $500,000 will be required to carry out these important activities. This is the same amount as had been provided annually since 1969. The purpose of this request is to continue to provide essential help in local resettlement of Chinese refugees in Hong Kong and Macao. In this manner, the U.S. Government can—for a relatively small sum—show U.S. concern for the welfare of those who have succeeded in escaping Communist China.

I might add, Mr. Chairman, that we intend to insure that the FERP program provides an X-ray machine for the Children's Orthopedic Hospital at Sandy Bay, for which you laid the cornerstone while on an inspection tour of the Far East Refugee Program in Hong Kong in 1965.

UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES (UNHCR)

I should now like to discuss, with your permission, Mr. Chairman, the other activities which are financed under this appropriation, all of which are interrelated but rightly separate. First, we are requesting $1,000,000 for support of the United Nations High Commissioner for Refugees (UNHCR). This is the same amount as contributed in 1970 and programed for 1971.

The UNHCR has a unique and necessarily independent role in representing the interests of the refugee. First and foremost among his responsibilities is that of providing international protection for refugees. No other body has the international stature or authority in dealing with countries of asylum which the UNHCR possesses. The chief instrument of the UNHCR in securing rights and protection for refugees is the United Nations Convention Relating to the Status of Refugees. One of the primary objectives of the UNHCR, with offices in the principal asylum countries of the world, is to increase national accessions to the convention and its 1967 companion, the Protocol, and to insure that the provisions of these treaties with respect to the legal and political protection of refugees are met.

While the UNHCR assists in the local integration of refugees in Europe who have no opportunity to emigrate from their countries of asylum, his material assistance program is directed primarily toward resolving refugee problems in the developing world. This objective serves U.S. interests as it helps in areas where there is no direct U.S. activity or participation in behalf of refugees.

INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION (ICEM)

This office requests, Mr. Chairman, $3,250,000 for the Intergovernmental Committee for European Migration (ICEM) as this country's share of ICEM's $24.5 million budget, the bulk of which is expended on economical transportation from Europe for refugees being resettled abroad. ICEM has long and universally recognized experience in the efficient movement of persons overseas at the lowest possible cost. Its worldwide contacts and its special arrangements with transportation companies make it a vital link in the resettlement of refugees.

Through the teamwork of these three seasoned and proven organizations, USRP, UNHCR and ICEM, each with trained, experienced and dedicated personnel—tried in fire and under duress, as it were—the flow of refugees is maintained from asylum countries to their new homes.

Each of these organizations has a distinct role to play in assisting the refugee from the time of his request for asylum to his permanent resettlement. Each of their separate but coordinated activities contributes immeasurably to the prevention of an increase in the numbers of refugees in countries which have generously provided asylum and assure continuance of those countries as havens for new refugees.

It might be pertinent at this point to state that, in 1970, the State Department's USRP program totaled $3,200,000. It is difficult for varying reasons, if not impossible, to compare, with any reasonable exactitude, the Department's aid with the contributions of other countries but it is estimated that $100 million was spent by 28 foreign governments in 1970 for Eastern European refugees. This is exclusive of more than $1,500,000,000 spent by the West German Government for Germans and persons of German extraction expelled from Eastern Europe.

INTERNATIONAL COMMITTEE OF THE RED CROSS (ICRC)

Our request of $50,000 for the International Committee of the Red Cross (ICRC) represents a contribution to an organization which provides effective service very much in the interests of the United States in situations and areas where direct U.S. activity would not be appropriate or in some cases possible. We have contributed this same amount to ICRC each year since 1965 pursuant to this specific authorization in Public Law 89-230. The ICRC's reputation for neutrality and impartiality permits it to assist in the release of passengers from hijacked aircraft, political prisoners, and prisoners of war as well as to operate emergency medical programs in areas interdicted to others. The ICRC has a unique role in the world today which is of direct benefit to the United States.

ADMINISTRATIVE EXPENSES

Our request for administrative expenses represents our lowest estimate of realistic costs for an acceptable level of management and support of these programs.

IMPORTANCE OF REFUGEE PROGRAMS

Mr. Chairman and members of the committee, in conclusion I should like to reiterate the importance to the United States of each of the acivities for which we are requesting funds. Each of the organizations has a vital part to play. Each is able to make a special contribution by virtue of its independent role and its experience. Our contributions are but a part of those given by many other countries to carry on the work of aiding those who have fled persecution and who must not be left in despair. The appropriation of these funds will show that the United States continues its tradition of helping those who have chosen freedom to find it in a real way. In so doing, we shall also be contributing to stability and peace in these sensitive areas of the world. I urge your favorable consideration of this request.

Mr. PASSMAN. We would like to insert in the record at this point. Mr. Kellogg's biography.

(The biography follows:)

Francis (Frank) Leonard Kellogg was born in New York City on January 5, 1917. After graduating from the Choate School and Phillips Exeter Academy, Mr. Kellogg entered Princeton University, where he obtained a B.A. degree in 1940.

From 1942 until 1946, Mr. Kellogg served with the U.S. Army in the Field Artillery, Army Transportation Corps, and Office of Strategic Services, and was separated from the service with the rank of major.

In 1946, Mr. Kellogg joined John Wanamaker New York, and in 1950 was appointed executive vice president and a director of the corporation. From 1955 to 1958, he was chairman of the board and chief executive officer of National Department Stores Corp. Under his direction, this concern was transformed into International Mining Corp., a leading U.S. natural resources company, of which he was president until 1971. He has also served as chairman of the board of John Wanamaker Liberty Street, Inc.; and director of John Wanamaker Philadelphia, Molybdenum Corp. of America, Perry Industries, Inc., Hunter Industries, S.A., Fresnillo Co., Canton Co. of Baltimore, International Mining Corp., L.E.R. Distributing Corp., and the 920 Fifth Avenue Corp.

For the past 10 years Mr. Kellogg has been a director and member of the executive committee of the International Rescue Committee, and a director and treasurer of the American Immigration and Citizenship Conference. Both organizations are leading voluntary agencies in refugee activities.

During 1970 Mr. Kellogg was adviser to the U.S. delegation to the United Nations General Assembly. In January 1970 he was an observer at the UNESCO-sponsored meeting of Arab ministers of education in Marrakech, Morocco. Mr. Kellogg headed the American delegations to the Executive Committee of the United Nations High Commissioner for Refugees in September 1970, and to the Council of the Intergovernmental Committee for European Migration in November 1970, both meetings in Geneva.

Mr. Kellogg was sworn in as Special Assistant to the Secretary of State for Refugee and Migration Affairs on January 19, 1971.

He is married to the former Fernanda Munn. The Kelloggs have two children, Christopher (27) and Fernanda (24).

Mr. PASSMAN. I might state, Mr. Kellogg, I would be just a little out of character to brood about foreign aid too much, but this is one program that I have some knowledge of. There has been a lot of good accomplished out of this particular program. There are certain places I go and observe the good this particular appropriation has accomplished. I believe this appropriation, in all probability, has accomplished more in good will than almost any of the other foreign aid programs we have.

(Discussion off the record.)

Mr. PASSMAN. So that we may expedite the hearings today, I am going to defer my questioning until we have heard from the other members, and I will then consume what time I need. At this time I yield to Mr. Shriver.

Mr. SHRIVER. Thank you, Mr. Chairman.

U.N. CONVENTION RELATING TO THE STATUS OF REFUGEES

Mr. Kellogg, on page 6 of your statement you said, "One of the primary objectives of the United Nations High Commissioner for Refugees is to increase national accessions to the U.N. Convention Relating to the Status of Refugees." Do you have a list of the countries which agreed to this convention?

Mr. KELLOGG. I believe I do.

Mr. BRYAN. We can furnish it.

Mr. SHRIVER. Put it in the record.

(The information follows:)

LIST OF PARTIES TO THE CONVENTION AND PROTOCOL RELATING TO THE STATUS OF REFUGEES

(As of February 28, 1971)

CONVENTION	PROTOCOL
Algeria	Algeria
Argentina	Argentina
Australia	
Austria	
Belgium	Belgium
Botswana	Botswana
Brazil	
Burundi	
Cameroon	Cameroon
Canada	Canada
Central African Republic	Central African Republic
Colombia	
Congo (Brazzaville)	Congo (Brazzaville)
Congo (Kinshasa)	
Cyprus	Cyprus
Dahomey	Dahomey
Denmark	Denmark
Ecuador	Ecuador
Ethiopia	Ethiopia
Finland	Finland
France	France
Gabon	
Gambia	Gambia
Germany (Federal Republic)	Germany (Federal Republic)
Ghana	Ghana
Greece	Greece
Guinea	Guinea
Iceland	Iceland
Ireland	Ireland
Israel	Israel
Italy	
Ivory Coast	Ivory Coast
Jamaica	
Kenya	
Liberia	
Liechtenstein	Liechtenstein
Luxembourg	
Madagascar	

CONVENTION	PROTOCOL
Monaco	
Morocco	
New Zealand	
Netherlands	Netherlands
Niger	Niger
Nigeria	Nigeria
Norway	Norway
Paraguay	Paraguay
Peru	
Portugal	
Senegal	Senegal
	Swaziland
Sweden	Sweden
Switzerland	Switzerland
Tanzania	Tanzania
Togo	Togo
Tunisia	Tunisia
Turkey	Turkey
United Kingdom	United Kingdom
	United States
Uruguay	Uruguay
Vatican City	Vatican City
Yugoslavia	Yugoslavia
Zambia	Zambia

Summary

Parties to convention	60
Parties to protocol	44
Parties only to convention	19
Parties only to protocol	2
Parties both to convention and protocol	42

INTERNATIONAL COMMITTEE OF THE RED CROSS, PRISONERS OF WAR

Mr. SHRIVER. Would you tell us what, if any, progress has been made during the past year by the International Committee of the Red Cross regarding their efforts in behalf of the U.S. prisoners of war in Vietnam?

Mr. KELLOGG. Yes, sir, I can address myself to that question. I have as recently as today received the last word on the prisoner of war situation with respect to ICRC activities and efforts. In addition, I was present recently when a vice president of the ICRC visited the State Department and brought the Department up to date on their activities.

I regret to tell you that the progress is so little as to be almost immeasurable. We do not know the extent that letters and packages are being received. We do not know the condition of the prisoners. We don't even know precisely the names, ranks, serial numbers of those who are alive and in the hands of the North Vietnamese, so regrettably while the ICRC continue to make every effort they possibly can to alleviate this situation, I can't report anything that is hopeful or promising. It continues to be a very serious situation.

INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION

Mr. SHRIVER. You are requesting an increase of $250,000 for the Intergovernmental Committee for European Migration, but there are

no specific reasons in the justifications. Would you explain the reason for the increase?

Mr. KELLOGG. Yes, sir; I will be glad to do so. In the first instance we are anticipating an increase in the number of refugees to be handled by the Intergovernmental Committee for European Migration. For example, to be specific in 1971 we estimate that the ICEM will move a total of 80,200 refugees and migrants. This is broken up between 52,000 refugees and 28,200 migrants to make up that total. In 1972 we anticipate an increase in refugees to 58,000 total and 23,000 migrants for an over-all total of 81,000. That is the basic reason for the increase in the request.

Mr. SHRIVER. I understand that, but why are there that many more refugees available now?

Mr. KELLOGG. The situation in Eastern Europe continues very harsh and very grave, and the flow westward is continuing unabated. In addition to that, there are other sensitive areas, of which I am sure this committee is aware, such as for example Poland, the Soviet Jewish situation, and others which indicate at this moment that the number of refugees will be increased rather substantially.

Mr. SHRIVER. Mr. Chairman, I believe I have used my 5 minutes. Thank you.

Mr. PASSMAN. Mr. Roybal.

PROPOSAL TO CONSOLIDATE REFUGEE PROGRAMS

Mr. ROYBAL. Mr. Kellogg, I see from your statement that you are requesting funds for different organizations, is that correct?

Mr. KELLOGG. Yes, sir; that is correct.

Mr. ROYBAL. These organizations operate mostly in Europe.

Mr. KELLOGG. With the exception of two, that is entirely correct; yes, sir.

Mr. ROYBAL. Why isn't it possible to have just one organization doing the job, instead of several?

Mr. KELLOGG. Mr. Roybal, our office has considered that matter with great care and attention, and after many sessions in which we examined the pros and cons, we have come to the conclusion that the separate organizations must remain separate for a number of very important reasons.

For example, ICEM as you undoubtedly know, is composed of 31 different countries. It is an international organization with all the force and effectiveness of an international organization, but also it certainly cannot directly reflect the United States as a humanitarian government interested in refugees and in showing the world its side of the great ideological confrontation between the West and the East. Also ICEM, and I am addressing myself first to that particular organization, is charged with a specific responsibility which it carries out very effectively and very well, and that is the transportation of refugees from their country of asylum to their ultimate country where they are to be settled. This is the reason why these 31 nations are members of ICEM and it is the reason why they contribute to this program. The State Department's program, USRP, United States Refugee Program, has a completely different function. Its function is to show the

interest and concern of the American people and the American Government as an American organization for refugees. This is quite different from ICEM. Certainly it is a program that European countries would not want to participate in any more than we would in the individual cases of Western European countries that are helping this great problem of refugees.

In addition, I think I should say that the USRP program is a people-to-people program which aids the refugee who has escaped the Iron Curtain and who has no claim on any free country or nationality. For example, these are people who escaped the Iron Curtain, and can't claim Italian nationality or German or whatever the case may be. In those instances those refugees are handled entirely by the country to which they have a claim, so that we feel that the USRP program in effect shows the U.S. interest in this field, and that it should be continued as a U.S. endeavor, far more efficient than if it were amalgamated with either of the other two European organizations.

QUESTION OF DUPLICATION BETWEEN REFUGEE PROGRAMS

Mr. ROYBAL. Are you saying then that there is no duplication by the various organizations?

Mr. KELLOGG. I am; yes, sir. There is very, very little duplication. The three organizations to which we are addressing ourselves overlap virtually in no area that I am aware of. Incidentally, they meet frequently and discuss mutual problems, and there has been no evidence that there is an overlap between these three organizations.

INTERNATIONAL COMMITTEE OF THE RED CROSS

Mr. ROYBAL. What about the $50,000 for the International Committee of the Red Cross? Isn't that organization also involved in similar work elsewhere?

Mr. KELLOGG. $50,000 first, sir, is a matter of public law which was authorized by Congress some years ago and it has remained at that level ever since, and we refer to that public law when we come to this committee to make our request for $50,000. That sum, as you also probably are aware, is only for the administrative budget of the International Committee for the Red Cross. ICRC is particularly valuable in areas where the United States can't operate and can't go for various reasons. It also is important in the hijacking cases that have occurred in recent months. I would say that its function is quite different from any of the other organizations which we are discussing.

Mr. ROYBAL. Thank you very much.

Mr. PASSMAN. Mr. McEwen.

Mr. MCEWEN. Mr. Chairman, I was just reading the statement of the gentleman. I have no questions at this time.

INCREASE FOR FISCAL YEAR 1972

Mr. PASSMAN. Mr. Kellogg, your fiscal year 1972 request is for $8,650,000 as compared with the fiscal year 1971 program of $8,552,000, or an increase of $98,000, is that correct?

Mr. KELLOGG. Yes, sir, I believe that is correct.

Mr. PASSMAN. Of course this includes the proposed supplemental request of $37,000 for pay cost and the transfer of funds from AID of $2,866,000. When you were before the committee last year you did not request $8,552,000. This is the total simply because AID transferred $2,866,000, is that correct?

Mr. KELLOGG. That is correct, yes, sir.

PRESIDENTIAL DETERMINATION ORDER

Mr. PASSMAN. Would you elaborate briefly and then put more information in the record as to why it was necessary to have this large increase in these programs?

Mr. KELLOGG. Yes, sir, I believe I can answer that question. In order to do that, with your indulgence, Mr. Chairman, I would like to go back to the 3 fiscal years, 1969, 1970 and 1971. The amounts that were available for these programs were substantially greater than the amounts appropriated by Congress, because of the availability in those 3 years of funds through the 1969 and 1970 determination orders. For fiscal year 1972 we do not plan to request funds through a determination order.

(The information follows:)

Section 2(c) of the Migration and Refugee Assistance Act of 1962 provides a method of assisting in financing this program on an emergency basis. Whenever the President determines it to be important to the national interest necessary funds may be made available in order to meet unexpected urgent refugee and migration needs. Such an emergency arose after the August 1968, invasion of Czechoslovakia by the Soviet Union. Suddenly, and in numbers certainly unexpected by us before that unfortunate event tens of thousands of refugees left Czechoslovakia and the feeling of unrest spread to other countries of Eastern Europe so that there was a complimentary increase in refugees from other Eastern European countries, as well. The number of refugees assisted by the U.S. refugee program (USRP) which was 9,826 in 1967 jumped to 53,412 for 1969, more than a 5-fold increase. This was an unexpected urgent refugee need which the President recognized as being important to the national interest and the President authorized a transfer of $5,700,000 in 1969–70 funds from Foreign Assistance Funds which was used to assist refugees from Communist countries. The President also made available to us $5,700,000 in 1970–71 funds by transfer for Foreign Assistance Funds for the same continuing purpose.

The U.S. refugee program (USRP) assisted 41,000 refugees in 1970, and it is estimated that 36,000 refugees will be assisted in 1971 and 34,000 in 1972, indicating that the level has not subsided to the level previous to the 1968 crisis which averaged 8,000 annually. Recognizing that we ought not to continue indefinitely with emergency financing through the Presidential determination order route we are asking Congress to appropriate regularly to the program the funds needed. The most realistic view of future levels of needs is that, while hopefully decreasing, requirements will remain for some years substantially above the level of the years 1963–1967.

Mr. PASSMAN. What do you mean, "determination order?"

Mr. KELLOGG. A Presidential determination order. That is, I believe, the amount of money that was made available to us from AID.

Mr. PASSMAN. The Presidential determination was brought about by the very fact that those who administer these programs thought they saw a need and got the President to concur in the request. Isn't that the way that works out?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. The President doesn't review these programs. It would be impossible for the President to know anything about these programs, so he has to follow the recommendations of the people who administer the programs. Isn't that a statement of fact?

Mr. KELLOGG. Yes, sir, I believe that is correct.

JUSTIFICATION MATERIAL

Mr. PASSMAN. We will insert the justifications from pages 1 through 10.

(The pages follow:)

DEPARTMENT OF STATE
MIGRATION AND REFUGEE ASSISTANCE

Appropriation, 1971		$ 5,649,000
Proposed Supplemental for Civilian Pay Act Increases - P.L. 90-231	+	37,000
Adjusted Appropriation, 1971		5,686,000
Proposed Transfer from Foreign Assistance Funds by Presidential Determination		none
Estimate, 1972		8,650,000
Increase	+	2,964,000

	1971			1972[2]	Increases		
Program by Activities:	Appropriation[1]	1970/1971 Funds from Presidential Determination	Total Program[1]		Over 1971 Appropriation	Over 1971 Total Program	Justification Page
1. Intergovernmental Committee for European Migration	$3,000,000	$ --	$3,000,000	$3,250,000	$+ 250,000	$+250,000	5
2. United Nations High Commissioner for Refugees	1,000,000	--	1,000,000	1,000,000	--	--	6
3. Refugees from European Communist Countries (USRP)	404,000	2,600,000	3,004,000	2,900,000	2,496,000	-104,000	7
4. Refugees from Communist China (FERP)	500,000	--	500,000	500,000	--	--	8
5. International Committee of the Red Cross	50,000	--	50,000	50,000	--	--	9
6. Administration	732,000[1]	266,000	998,000[1]	950,000[2]	+ 218,000	- 48,000	10
Total Adjusted Appropriation	$5,686,000	$2,866,000	$8,552,000	$8,650,000	$ 2,964,000	$+ 98,000	

1/ Includes proposed supplemental for Civilian Pay Act increases effective December 28, 1969 ($37,000).

2/ Includes Pay Act Increases starting December 28, 1969, but excludes Pay Act Increases effective January 11, 1971.

DEPARTMENT OF STATE
MIGRATION AND REFUGEE ASSISTANCE

FISCAL YEAR 1972

General Narrative Statement

1971 Estimate	1972 Estimate	Difference
$8,552,000	$8,650,000	+$98,000

For Fiscal Year 1972, $8,650,000 is requested for programs of assistance to refugees and migrants under the Migration and Refugee Assistance Act of 1962 (Public Law 87-510), and under Public Law 89-230 which provides for an annual contribution to the International Committee of the Red Cross. Of this amount $7,650,000 is to remain available until December 31, 1972. This request is to provide funds for United States contributions to the Intergovernmental Committee for European Migration (ICEM), 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.

The United States has always been a country which received the oppressed, the unfortunates who fled from religious or political persecution. Our earliest settlers, the Puritans, fled from religious persecution. In the nineteenth century hundreds of thousands of Germans and other national groups from Europe fled after the unsuccessful political uprisings of 1848. In this century, Jews fled the scourge of Nazism. Most Americans are refugees or are descended from refugees. This national concern for the oppressed is manifested in the many ethnic and religious groups in this country who organize and support voluntary agencies with which this program cooperates.

The President recently reaffirmed United States policy in regard to refugees when he said, "The United States of America for 190 years has had a proud tradition of providing opportunities for refugees and guaranteeing their safety, and we are going to meet that tradition." This humanitarian concern for refugees is often an important element in our broader efforts to resolve problems from which the refugee problems originate, such as oppression or aggression on the part of totalitarian regimes, tensions and military actions which become matters of international concern. Thus, United States humanitarian concern for refugees is an important asset in our efforts to promote peace throughout the world and to support the right of individuals to live in freedom, dignity, and self respect. Furthermore, our assistance helps prevent the accumulation of refugees in countries of first asylum with resultant political and economic burdens. This

assistance encourages asylum countries to maintain generous asylum policies.

The programs assisted through this appropriation, while interrelated, perform functions which are distinct, each from the others. The Intergovernmental Committee for European Migration is principally engaged in the processing of refugees for resettlement and in the provision of economical transport to countries of final destination. The United Nations High Commissioner for Refugees is concerned with the provision of international protection for refugees and with assistance projects which are designed to reestablish refugees on a self-supporting basis within their country of asylum. The United States Refugee Program provides services different from but complementary to those provided by the Intergovernmental Committee for European Migration and the United Nations High Commissioner for Refugees. Working through contracts with American and international voluntary agencies, which also contribute their own funds and efforts to these purposes, USRP facilitates the ultimate resettlement of the refugees primarily through the provision of resettlement support activities on an individual case basis. This is an essential supplement to the assistance given by other parts of the refugee community upon which USRP acts as a catalyst.

These three programs work together as a team, coordinating their efforts, each performing an essential part in the resolution of the refugee problem. They have established an efficient and cooperative pattern of operations which helps to maintain a steady flow of refugees from asylum countries to their ultimate destinations. A continued United States part in helping refugees in Europe in terms of funds, concern, and leadership is required to keep the current refugee flow moving freely. The Far East Refugee Program is an effective means of demonstrating the continuation of the historic friendship and humanitarian concern of the American people toward the Chinese people. The International Committee of the Red Cross supervises the implementation of the Geneva Conventions of 1949 as they apply 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 time of war. The ICRC also provides assistance to victims of such internal disturbances as have lately taken place in Nigeria and in Jordan and assists in negotiations with regard to international aircraft hijacking incidents.

No one can predict with complete assurance what the cost of U.S. refugee assistance programs will be. For the past several years, since the August 21, 1968, Soviet invasion of Czechoslovakia, the cost of these programs has been about double what it was for a few years previous to that distressing event. This increase in cost has been financed by transfers from Foreign Assistance Funds under Presidential Determination as provided for under the authority of Section 2(c) of the Migration and Refugee Assistance Act of 1962. This year, FY 1972, we are requesting Congress to appropriate all funds necessary to support the program and do not plan to rely on a Presidential Determination. We also do not now expect to require a Presidential Determination for FY 1971.

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While the level of Eastern European refugees assisted by the U.S. Refugee Program has subsided somewhat from what it was shortly after the Czech crises of August, 1968, (1969 refugees assisted were 53,412; 1972 refugees to be assisted are estimated at 34,000), the level is still three and a half times as high as it was in 1967 (refugees assisted in 1967: 9,826). The December 31, 1970 caseload of refugees from European communist countries was 22,857 as compared with the December 31, 1967, caseload of 5,020. The requirement for assistance to refugees from Eastern European countries other than Czechoslovakia, as well as for refugees from Czechoslovakia, has become and remains much higher than it was before 1968. The recent ferment in Eastern Europe and the prospects of increased travel between Eastern European countries and Western Europe, indicate that the number of East Europeans seeking asylum in the West will not subside to the pre-August 1968 level.

The estimated minimum requirements for each segment of the program were carefully considered in arriving at the request for $8,650,000. However, in view of the rapid and volatile nature of refugee activity, it may well 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 conditions.

1. INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION (ICEM)

It is proposed that for 1972 the United States contribute $3,250,000 to the Intergovernmental Committee for European Migration (ICEM). This amount, which reflects an increase of $250,000 over our contribution in 1971, is required in order to permit ICEM to meet the increasing demands of its operations.

ICEM, an international organization outside the aegis of the United Nations, was organized in 1951 on the initiative of the United States Congress. The organization, comprised of 31 non-communist member governments, has repeatedly 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 has proven itself to be 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. United States foreign policy interests are directly served and furthered by ICEM's activities in keeping the doors of asylum open in Western European countries. Most recently ICEM has demonstrated its unique importance in moving efficiently and effectively the many thousands of Czechoslovak and other Eastern European refugees to overseas resettlement countries.

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

ICEM arranges air and sea transportation for migrants and refugees under preferential arrangements and provides special services at both ends of the movements. These include 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.

At $3,250,000, the proposed contribution to ICEM is about 18% of all government contributions which, in comparison, is very low to U.S. contributions to most other international organizations. In 1972, it is estimated that ICEM will move about 81,000 persons at a total program cost of over $24,000,000. The U.S. is expected to contribute about $2,450,000 for the operational budget and about $800,000 for the administrative budget. This would provide a firm base for the overall program which is financed from sending and receiving countries and other member governments and contributors.

2. UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES (UNHCR)

It is proposed that in 1972 the United States contribution to the United Nations High Commissioner for Refugees (UNHCR) be $1,000,000, the same as in 1971.

The UNHCR is the linchpin in the international mechanism for assistance to refugees and is an invaluable instrument for providing international protection for refugees throughout the world and for promoting permanent solutions to their 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.

In addition to seeking to prevent forcible repatriation, the international protection function of the UNHCR 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 promotes the local integration of refugees who cannot emigrate and is an essential supplement to the USRP and ICEM programs which concentrate on external resettlement. Major emphasis in the UNHCR material 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.

The United States is an active member of the 31 nation UNHCR Executive Committee which reviews and supervises the UNHCR's activities and is a party to the 1967 Protocol Relating to the Status of Refugees. It is believed 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.

Due to the widening areas of refugee problems and the increasing numbers of refugees, the cost of the assistance program of the UNHCR has been steadily rising. By 1972, it is expected to be at least $7,000,000 or more. The proposed contribution for 1972 is expected to be about 19.2% of all government contributions, still far below the percentage contributed by the United States to other U.N. organizations.

3. REFUGEES FROM EUROPEAN COMMUNIST COUNTRIES (USRP)

For 1972 it is proposed that $2,900,000 be provided for the United States Refugee Program (USRP) through which direct supplementary assistance is given to refugees from the communist countries in Europe. This represents a decrease of $104,000 from the programmed level of $3,004,000 in 1971.

USRP provides its support to these refugees on the basis of demonstrated need through reimbursable contracts established with American and international voluntary agencies. These agencies extend such essential assistance as initial reception aid, supplementary interim care and maintenance, resettlement support and, in selected instances, local integration. Assistance under supplementary care and maintenance projects includes food, clothing, emergency medical aid and temporary shelter. Resettlement assistance, which represents USRP's principal goal, includes intensive resettlement counseling by trained voluntary agency personnel working closely with resettlement missions, visa documentation services, as well as purposeful vocational and language training programs designed to enhance the refugees' acceptance as prospective immigrants in countries of the free world. In exceptional instances, refugees who are unable to resettle overseas are assisted in becoming integrated in their country of first asylum. To date USRP in close collaboration with the voluntary agencies, as well as with the Intergovernmental Committee for European Migration, has been instrumental in aiding more than 325,000 refugees.

By such projects, USRP has since its inception in 1952, demonstrated the continuing interest of the United States in the plight of those refugees who have fled their homelands in Eastern Europe to seek asylum in the free world. By assisting the principal countries of first asylum in Western Europe to cope with the heavy influx of refugees, the USRP has been instrumental in effectively promoting a liberal asylum policy in these countries.

The year 1970 began with an initial USRP caseload of 28,680 refugees; during 1970 about 12,000 additional refugees were registered. A total of almost 41,000 refugees were assisted by USRP in 1970. At the beginning of 1971 the pending caseload was 22,857.

Unrest continues in Eastern Europe; there is increased travel between Eastern European countries and the West primarily because travel restriction has been relaxed. As past experience has shown, such conditions stimulate the exodus of refugees.

While the exact effect of these factors and of unanticipated developments cannot be predicted, the influx of new refugees during 1971 is expected to be about 13,000 and remain at that level for 1972. Thus, assuming the predicted stabilization of new 1972 arrivals at the 1971 level and the continuing ability of USRP in concert with the voluntary agencies to resettle a slightly greater number of refugees than this influx, the total caseload for 1972 will decrease to about 34,000. However, if conditions alter and do not permit this expected caseload decrease, it may be necessary for the Department to seek additional funds in 1972 to meet the essential requirements of USRP.

4. REFUGEES FROM COMMUNIST CHINA (FERP)

The request for assistance to refugees from Communist China under the Far East Refugee Program (FERP) for 1972 is at the level of $500,000, the same amount programmed for 1971.

The objectives of the FERP are to provide assistance where it is needed to Chinese refugees who have suffered under Communist oppression, and to demonstrate our continuing interest in the welfare of the Chinese people. Refugees continue to flow into Hong Kong and Macau. In 1970, actions by the Chinese Communist government to force urban dwellers to take up permanent residence in rural areas is believed to have been a significant factor in the increase over the previous year in the number of new refugees. This has a portent for the future in that it demonstrates that even as the Chinese authorities improve their control over the people, they will by the nature of this control increase the numbers of disaffected and of those seeking to escape Communism. While the Hong Kong Government has made great strides in meeting the needs generated by the flow of refugees into the Colony since 1948, the FERP is able to fill many urgent refugee requirements, including temporary and permanent housing, counselling in job placement and family problems, vocational training, day nurseries, youth welfare and student aid, and specialized medical treatment. These facilities are made available through contracts with voluntary agencies which provide personal services as well as erecting major projects such as hospitals, specialized training schools, and resettlement housing. These projects are visible and become known as a symbol of U.S. concern not only to the refugees benefitting from them, but also to other Chinese in Hong Kong and elsewhere. In particular, the FERP demonstrates that we are interested in Asian refugees from communism as well as those in Europe.

A level of approximately half a million dollars is the minimum needed to provide continuing services for recent refugee arrivals and to permit the inauguration of projects of sufficient size to be conspicuous and identified with U.S. interests in refugees from the Chinese mainland. A program of any lower level would not meet U.S. objectives and would be interpreted as a slackening of U.S. interest in the welfare of refugees from Communist China.

5. INTERNATIONAL COMMITTEE OF THE RED CROSS (ICRC)

In 1966 Congress, under Public Law 89-230, authorized to be appropriated an annual United States contribution of $50,000 to the International Committee of the Red Cross (ICRC). The United States has been making contributions of $50,000 since 1966 and in view of expanding activities of the ICRC which significantly serve United States interests and of the contributions of more than sixty other governments, it is considered important that the United States continue to contribute $50,000 toward the expenses of the ICRC in 1972.

The International Committee of the Red Cross, founded in Geneva in 1863, is the mother organization of all Red Cross Societies and the promoter of Red Cross principles. It is formally recognized in the texts of 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. The specific Conventions are: (1) Geneva Convention for the amelioration of the conditions of the wounded and sick in armed forces in the field; (2) Geneva Convention for the amelioration of the conditions of the wounded, sick and shipwrecked members of armed forces at sea; (3) Geneva Convention relative to the treatment of prisoners of war (POW's); (4) Geneva Convention relative to the protection of civilian persons in 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. Specifically at this time, the ICRC is endeavoring to promote humane protection and welfare services for American POW's and civilians detained by communist forces in Indo-China. With its well-established reputation for scrupulous adherence to neutrality, the ICRC is frequently the only agency permitted to enter and provide timely relief in politically sensitive areas. Thus, the ICRC has conducted many protective and relief activities in trouble spots throughout the world and in this respect has provided important assistance in areas of tension such as the 1967 conflict in the Middle East, disputes between India and Pakistan, in Cyprus, the Congo, and for the Tibetan refugees in Nepal in which the United States has an interest. It was a major provider of relief and assistance to victims of the Nigerian and Jordanian conflicts and was instrumental in obtaining the release of passengers in the aircraft hijacked by Arab guerrillas. The ICRC also maintains the Central Tracing Agency in Geneva and operates the International Tracing Service in Germany, both of which maintain constant searches for POW's and missing persons resulting from military actions. Through the Central Tracing Service and in cooperation with the American Red Cross, ICRC searches for members of American families who may be lost or disappear in foreign lands or who may be unheard from in overseas disaster areas.

The annual administrative budget of the ICRC, exclusive of relief activities, exceeds $1,400,000. Toward this budget, over sixty governments and a like number of National Red Cross Societies make annual contributions of over $1,100,000. The balance of expenditures is covered by private donations, income from invested funds, and other miscellaneous sources of income.

6. ADMINISTRATIVE EXPENSES

For 1972, $950,000 is requested for Administrative expenses, a net reduction of $48,000 from the amount programmed for this purpose in 1971. This net reduction of $48,000 includes an increase of $19,000, consisting of one extra day's pay, periodic step increases, increased FEHBA contributions and overseas wage and price increases and a decrease of $67,000, most of which it is estimated, will come from reduced Shared Support costs.

Despite an ever increasing workload both in Washington and in Geneva (connected with American prisoners of war), the number of positions is the same as it was in 1968. The Administrative budget has increased from a base of $641,000 in 1968 to $998,000 in 1971 and back to an estimated $950,000 for 1972. The increases of $309,000 between 1968 and 1972 are mainly mandatory increases over which we have had little or no control.

Civilian Pay Act Costs	$143,000
Shared Support Costs	98,000
Within-grade Increases	33,000
Overseas Wage and Price Increases	16,000
Allowances and other Increases	19,000
	$309,000

These increases have been substantially funded during 1969-1971 with monies transferred from AID. No transfer is contemplated for FY 1972, so $950,000 is requested for Administrative expenses this year.

Mr. PASSMAN. I note this year you indicate there is no plan to request an additional amount from transfer for fiscal 1972, because you are requesting the total amount in the present program before us, is that correct?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. Are you saying that this need will repeat itself to the same extent that it did last year? Where are the justifications to support a one-third increase in this appropriation 2 years in succession?

Mr. KELLOGG. There is actually an increase, sir, of $98,000 between fiscal year 1971 and——

Mr. PASSMAN. But you are including the $2,866,000 transferred from AID that you did not ask for last year. Today when we look at the grand total of last year it was $8,552,000, but that included the $2,866,000 that we thought would be just a one-time proposition. Now you are taking what we refer to as the normal request and the amount transferred from AID, and raising the grand total up to the sum of the two, aren't you?

Mr. KELLOGG. I believe I can explain that, Mr. Chairman.

Mr. PASSMAN. We would like to know what brings this about. This is really about a one-third increase over what you requested originally last year, isn't it?

Mr. KELLOGG. That is true.

Mr. PASSMAN. We can understand some emergency that would require the additional $2,866,000, but now to move it up and say this is your regular appropriation, we want to know what justifications you have to establish that this emergency will repeat itself in this fiscal year.

Mr. KELLOGG. I think perhaps I can make that clear, Mr. Chairman, if I talk about the totals available for our programs for the last several years. I think that will demonstrate this.

Mr. PASSMAN. I don't believe you are getting the question. You are operating fiscal 1971 and fiscal 1972 at a level approximately $3 million above recent fiscal years, aren't you?

Mr. KELLOGG. I don't believe that that statement is completely accurate, sir.

Mr. PASSMAN. I want to be corrected if I am wrong. I am thinking in terms of your regular budget request.

Mr. KELLOGG. Yes, sir.

ANALYSIS OF PRIOR YEAR FUND AVAILABILITIES

Mr. PASSMAN. It may be well to place in the record at this point the list for the past 7 fiscal years of your regular request, the additional funds brought about by a Presidential determination and then indicate the grand total. You may also place some information in the record as to why you did not have the advance knowledge that you would need this money. Then I think we will understand. Is that fair enough?

Mr. KELLOGG. Yes, sir, indeed it is.

(The information follows:)

(In thousands of dollars)

	Available regular appropriation	Available Presidential determination	Total
1965	$8,200		$8,200
1966	7,946	$271	8,217
1967	6,050		6,050
1968	5,500	125	5,625
1969	5,511	5,019	10,530
1970	5,580	3,573	9,153
1971	5,686	2,866	8,552

The Presidential Determination of $271,000 for fiscal year 1966 was for unexpected, urgent needs in connection with Cuban refugees. The date of the President's Order was November 10, 1965, and the amounts used were to pay for part of the fiscal year 1966 costs of the airlift of Cuban refugees from Cuba to Florida. The Cuban refugee airlift program started in December 1965. The understanding reached by the Swiss Embassy in Cuba, representing U.S. interests, and the Cuban Ministry of Foreign Affairs establishing the procedures for facilitating the movement of Cuban refugees to the United States was announced in November 1965. On April 13, 1965, when we appeared before this committee to request funds for fiscal year 1966, it was impossible to anticipate the foregoing developments.

The fiscal year 1968 Determination Order in the amount of $125,000 was for unexpected urgent needs in connection with the Middle East crisis. The order was signed December 11, 1967, and the funds were made available on January 11, 1968. Subsequent to and as a result of the Arab-Israeli war of June 1967, large numbers of refugees fled from North Africa to Italy and the United States agreed they would provide a share of the cost of the care and maintenance of these refugees. When we appeared before this committee on March 22, 1967, to request funds for fiscal year 1968, these events were not anticipated by us.

The 1969 Determination Order which was signed on February 17, 1969, was for unexpected urgent needs in connection with assistance to Czechoslovak and other refugees from Communist countries in Europe. This need arose because of the invasion of Czechoslovakia by Soviet troops on August 21, 1968, and the subsequent occupation of Czechoslovakia by Soviet armed forces. These events trigfered an immediate increase in the number of refugees registered with the U.S. refugee program. New registrations, which had been 2,228 for the first half of 1968 were 19,484 for the last half of 1968. This increase was followed by a further new registration of 35,000 for 1969. This great increase in refugees seeking our assistance had not been anticipated on March 26, 1968, when we appeared to make our fiscal year 1968 request.

The 1970 Determination Order which was signed on February 11, 1970, was also for urgent needs in connection with assistance to Czechoslovakia and other refugees. The crisis which was originally caused by the invasion of Czechoslovakia by the Soviet Union in August 1968, continued and spread to other countries of Communist Eastern Europe. The number of refugees assisted by the U.S. refugee program which averaged about 8,000 a year for the years 1963 through 1967 became 27,000 in 1968 and 53,000 in 1969, was 41,000 in 1970 and is estimated at 36,000 in 1971. It was impossible to anticipate that the number of refugees assisted from Communist countries of Eastern Europe which had been in comparatively low numbers during the middle sixties should reach and be maintained at the levels four and five times higher.

ADEQUACY OF 1972 REQUEST

Mr. PASSMAN. With this high request, which is about the equivalent of the grand total for fiscal 1971, do you feel reasonably sure that this will be sufficient to see you through fiscal year 1972?

Mr. KELLOGG. Mr. Chairman, as you know better than I, the refugee business is a very inexact science, but as we sit here today, my answer to you is yes.

Mr. PASSMAN. You still have the authority to transfer $10 million to this program from activities funded under the Foreign Assistance Act of 1961, as amended, if the President so determines, is that correct?

Mr. KELLOGG. Yes, sir.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. In last year's justifications you indicated $774,000 was needed in administrative expenses to support the fiscal year 1970 program level of $11,324,000; is that correct?

Mr. KELLOGG. I believe that is correct.

COMPARISON OF 1971–1972 REQUEST FOR ADMINISTRATIVE EXPENSES

Mr. PASSMAN. This year you indicate that $950,000 will be needed for administrative expenses to support the fiscal 1972 program level of $8,650,000; is that correct?

Mr. KELLOGG. I want to make sure that I understand your question.

Mr. PASSMAN. In fiscal year 1970 you wanted $744,000 to administer a program level of $11,324,000. This year you want $950,000 to administer a substantially lower program of $8,650,000, so relating the administrative amount percentagewise, this is a substantial increase in administrative expenses, is it not?

Mr. KELLOGG. I believe, sir, if I read the figures correctly, that the administrative cost for 1971 was set at $998,000 to administer a total program appropriation of $8,552,000.

Mr. PASSMAN. It can best be understood if we will both go to the same document. Let's look at the fiscal year 1971 justification back on page 1. You have stated, item 5, administrative, $774,000, which you would use to handle an adjusted appropriation of $11,324,000. Am I covering it correctly? Look at the figures to pin it down, column 3, where it says, "Total." Is that correct?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. Let's go to the same justifications on page 1 this year. You want $950,000. Yet, the total adjusted appropriation is $8,650,000; is that correct?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. I guess there is a reason, gentlemen, but I wish you would put something in the record that would show why you need 20 percent more money to administer a program that is lower.

Mr. SOBOTKA. Mr. Chairman, may I try to answer that, sir?

Mr. PASSMAN. Yes; certainly. Did you say try to answer it?

Mr. SOBOTKA. Yes, sir; try. The figure last year, as you know, was based on our total appropriation request of $5,787,000, which was a limit imposed on us by the Bureau of the Budget. At the time of the last hearing we indicated to the committee that we did have available some determination-order funds from the President to supplement this because of the larger number of refugees, but we, at the same time,

felt that we might need additional funds in 1971, if the number of refugees did not decline sharply. The official appropriation request last year was based on a hopeful assumption that the number of refugees would decline sharply. They declined somewhat, but not that sharply. Therefore we had to apply, in addition to the funds which the committee provided us last year for administration, an additional amount of $266,000 from the determination-order funds, raising our total that we required for administration to $998,000. This amount was in relation to a total program cost of $8,552,000. For 1972, with a slight increase in our total program to $8,650,000, we have been able to arrange for a small decrease of $48,000 in the administrative request. The Office of Management and Budget, in its review of our budget request this year, asked us to prepare the whole budget, including the administrative portion, on the basis of no new determination order, but to seek from the committee for 1972 the full amount required, on the grounds that we could no longer say that we had an emergency situation that we couldn't foresee.

Mr. PASSMAN. In fiscal year 1970, you also had a limitation of $774,000 to administer $11,324,000. Simply stated, did the Director of the Budget place a limit that was actually too low for administrative expenses, and you got them to relax it to permit you to increase it?

Mr. SOBOTKA. Yes, sir; they agreed we could use some of the determination order funds to increase it.

Mr. PASSMAN. What would the outcome have been if they had not given you that permission?

Mr. SOBOTKA. I believe that we would not have been able to carry out the program as effectively and as economically as we did, sir.

Mr. PASSMAN. In what areas would there have been neglect?

Mr. SOBOTKA. We would have had a great deal of difficulty in meeting the needs for field supervision on the one hand, and for the requirements of planning and supervising the program from Washington on the other.

18-MONTH LANGUAGE AUTHORITY

Mr. PASSMAN. Is it not true you need language making $7,650,000 of the amount requested available until December 31, 1972, because some of the organizations operate on a calendar basis?

Mr. KELLOGG. That is correct, sir.

(Discussion off the record.)

Mr. PASSMAN. You are requesting a continuation of the old language.

Mr. KELLOGG. Yes, sir.

PRESIDENTIAL DETERMINATION ORDER AVAILABILITY

Mr. PASSMAN. You indicate on page 3 that you do not seek to require a Presidential determination for fiscal 1971. If I read the table on page 1 correctly, it appears that you have already had such a determination; is that correct?

Mr. KELLOGG. No; we have not had a determination order in 1971, sir.

Mr. PASSMAN. Let's look at page 1 of the justification where you show funds from Presidential determination, item 3, "Refugees from Euro-

pean Communist Countries" (USRP), $2,600,000, "Administration" $266,000. That is a Presidential determination, is it not?

Mr. KELLOGG. From the prior year; yes, sir.

Mr. PASSMAN. We are talking about fiscal 1971. This is applicable to fiscal 1971; is it not?

Mr. SOBOTKA. These funds were approved by the President in fiscal 1970, sir.

Mr. PASSMAN. However, it is applicable to fiscal 1971. I believe we established earlier that it increased your original request by $2,866,000, so as to make a grand total for fiscal year 1971 of $8,552,000.

Mr. SOBOTKA. Yes, sir. These funds, Mr. Chairman, were funds from the prior year determination order, which were obligated but were not expended and are carried over.

Mr. PASSMAN. But we appropriate by fiscal years. As far as the appropriation it is made on a fiscal year basis, and even though it was in 1970, the determination was applicable to what we refer to as the fiscal 1971 appropriation, is that correct?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Some day I would like to see our Government go on a calendar year basis. It makes it a bit confusing. We don't want to quarrel about this, but we are still dealing with the fiscal year 1971 operation.

You state on page 4 of the justifications:

> It may well be necessary to adjust the estimated amounts for each program activity within the limits of the total appropriation in order to meet the changing requirements and conditions.

You have already been doing this, have you not?

Mr. KELLOGG. We have done that in the past, yes, Mr. Chairman.

PROPOSED CONSOLIDATION OF ICEM AND USRP

Mr. PASSMAN. Each year we bring up the subject of the possible consolidation of the Intergovernmental Committee for European Migration with the U.S. refugee program. When I was in Geneva this past year, I had several conversations with our people over there. While the two programs may perform different functions they both deal with refugees, and I believe could be combined. We were encouraged to believe that that was possible. What is your thinking on that? We are speaking of item 1, the Intergovernmental Committee for European Migration, and item 3, Refugees from European Communist Countries. Why couldn't those two be consolidated?

Mr. KELLOGG. One reason, sir, is that merging USRP, with ICEM, would mean that USRP would lose its strictly American character.

Mr. PASSMAN. So what, if you save money? We have personnel there, do we not?

Mr. KELLOGG. Yes.

Mr. PASSMAN. Could you accomplish the same thing by consolidating?

Mr. KELLOGG. I do not believe so, no. First of all, the United States would lose its direct image and concern for nationals of Communist countries, and it would leave the impression in Europe that the United States is no longer interested in the plight of these individuals.

Mr. PASSMAN. We would have as strong a voice as the other members, would we not?

Mr. KELLOGG. But there are 31, sir, where in the case of the USRP it is the image, it is the U.S. effort in Europe.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. We do have organizations where one-third or more of the total appropriation goes purely for administrative expense. You are familiar with that.

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. We are looking at your justifications here in a lump sum. You actually have five organizations operating out of this appropriation. Each one is a complete organization within itself, that is: the Intergovernmental Committee for European Migration, the United Nations High Commissioner for Refugees, Refugees from European Communist Countries, Refugees from Communist China, and the International Committee of the Red Cross. There are actually five organizations working out of this total appropriation you are requesting. We know that the more pieces you break it into, having a separate organization to administer each of them, certainly it will increase the administrative expenses. We won't belabor the point at this time, but this committee may wish to go to Geneva and have a good, close look, and see where these people are domiciled, how close together they are, and how closely related this work is. After all, we do have to borrow this money to pay for these programs and, if there is some way that we can administer them more efficiently and cut down the percentage of the total appropriation that goes for administrative expense, I think the better off we will be and maybe the better the program will be. Have a look at it and put something in the record as to the pros and cons.

Mr. KELLOGG. We will certainly be glad to do that.

(The information follows:)

U.S. refugee program (USRP), from its inception in 1952, has assured on a high priority basis, the prompt and effective reception, interim care, and resettlement abroad of refugees from East European Communist countries. This priority program was established for two political purposes: to serve as a striking and conspicuous symbol of U.S. leadership in humanitarian concern for victims of persecution; and equally as a demonstration, to those who remain under totalitarian control, of the sincerity of our broad effort everywhere to sustain and promote the attainment of institutional and individual freedom. To the many millions of relatives and friends of the refugees who remain in European communist countries, our humanitarian concern through USRP assistance is a source of faith in the United States as a determined opponent of totalitarian oppression, and also of hope for ultimate freedom.

Such priority effort in behalf of those who have repudiated Communist regimes could not be assured through the Intergovernmental Committee for European Migration (ICEM). The flight of refugees from Communist countries raises delicate political problems for asylum governments in their relationships with the neighboring Communist regimes. These problems can lead to severe controversy, and tensions—both international and domestic—especially for countries of first asylum. We could not count upon continuity and stability in policy and effort on the part of 31 nations in a program whose priority rests upon a political as well as a humanitarian base. Political changes affecting member governments could bring challenge to such priority, and could easily work against the effectiveness of operations. Moreover, as has been the case in the past, changing political developments in East Europe and changing patterns

of the flight of escapees could bring the need for special priority efforts within the program in support of particular U.S. political objectives. There would be no way to guarantee such priority effort under a 31-nation program.

The members of ICEM have diversified interests and national priorities. The asylum countries contribute to ICEM and to United Nations High Commissioner for Refugees (UNHCR) to facilitate the emigration of refugees from or their integration in their territories. They also provide camps, basic care, and utilities and many other services. It is unlikely that they would or could expect their own taxpayers to agree to also increase their contribution to ICEM to cover the resettlement processing and other essential supplementary services now provided by USRP. In addition, they would be unlikely to rely predominantly on American voluntary agencies as does USRP, and thus the American world image of humanitarian concern for refugees would be further reduced.

Latin American nations in ICEM attach priority importance not to USRP refugees but rather to the selective migration of national migrants to their countries. Adequate additional contributions from them to ICEM for processing refugees for worldwide resettlement would be unlikely, nor could we expect them to support first priority effort in ICEM operations for such purposes. Other countries of immigration make their contributions largely in the form of financing ICEM movements to their countries in furtherance of their priority domestic policies and programs. Here again it seems evident that their support of a USRP-type program by ICEM would often be competitive with traditional interests in ICEM.

For the reasons cited at the outset, the U.S. priority interest lies in the refugees. USRP provides the leadership which sparks the effective international mechanism for the resettlement of these refugees, and promotes the confidence and participation of governments concern. Both the humanitarian and the political interests in this program are compelling and vitally related to our objectives vis-a-vis Communist countries and to our world image and leadership. In our opinion, the modest costs of the USRP are small indeed in relation to its importance in the pursuit of basic U.S. foreign policy objectives.

There are other considerations also which should be cited. A merger with ICEM or any other international organization, regardless of how administered, would leave the inescapable impression among refugees from these countries that the United States was no longer interested in their plight. Such a merger might well be misconstrued by elements of the American public as signaling U.S. apathy toward these refugees and serve to alienate influential ethnic groups in the United States whose continued understanding is vital to the successful implementation of our refugee programs. This would further undermine the image of America's leadership in aiding refugees and have a calamitous effect, particularly on the small though highly dedicated and motivated U.S. ethnic-oriented voluntary agencies assisting Eastern European refugees.

Eligibility for USRP assistance is predicated on, among other criteria, security screening of each individual to preclude the expenditure of U.S. Government funds for criminals, anarchists, Communists, and subversives. This security screening could be difficult to administer as stringently under the aegis of an international organization.

Moreover, involving ICEM in the provision of supplementary care and maintenance and individual resettlement counseling to refugees would constitute a major departure from ICEM's basic role of providing transportation assistance. It is questionable whether member governments of ICEM would endorse such a departure.

It is also problematical whether any substantial administrative economies would ensue from such a merger. It would still be necessary for the Office of Refugee Migration and Red Cross Affairs in Geneva (RMRC/Geneva) to maintain liaison with international refugee and related organizations, supervise the expenditure of U.S. Government funds, and report on significant developments and trends in the refugee and related fields. Any administrative savings effected at RMRC/Geneva by such a merger would be offset by additional requirements for ICEM.

U.S. ASSISTANCE TO REFUGEES

Mr. PASSMAN. Would you please put a table in the record similar to the one which appeared on page 49 of last year's hearings, showing the

total U.S. assistance to refugees for fiscal year 1970 under the various programs.

Mr. KELLOGG. Yes, sir.

(The information follows:)

U.S. ASSISTANCE TO REFUGEES FOR FISCAL YEAR 1970

Categories of refugees assisted	Program managed by—	Source of funds	Amount of program assistance	Value of Public Law 480, funded by Department of Agriculture [1]	Total
Refugees in Europe and elsewhere, from European Communist countries.	State AID	Foreign assistance	$3,200,000	$3,600	$3,203,600
Chinese refugees in Hong Kong and Macau.	do	do	500,000	773,500	1,273,500
Refugee students from southern African countries in the United States.	State	State	875,524		875,524
Refugees from southern Africa in other AF countries.	AID	Foreign assistance	600,000		600,000
Palestine Arab refugees	UN Relief and Works Agency for Palestine refugees in the Near East (UNRWA).	do	[2] 23,200,000		
	AID			951,600	24,151,600
Various categories of alien refugees world wide.	UN High Commissioner for Refugees (UNHCR).	Foreign assistance	1,000,000		1,000,000
Refugees moved from Europe, the Near East and other areas.	Intergovernmental Committee for European Migration (ICEM).	do	[3] 3,000,000		3,000,000
Vietnamese refugees displaced within South Vietnam.	AID	do	35,449,000	25,000,000	60,449,000
Laotian refugees displaced within Laos.	AID	do	[4] 12,300,000	1,938,000	14,238,000
Cuban refugees in the United States.	HEW	do	87,412,000		87,412,000
Various sub-Sahara African groups.	AID	Agriculture		1,372,800	1,372,800
Refugee nationals in Indonesia	AID	do		264,000	264,000
Total			167,536,524	30,303,500	197,840,024

[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] Includes national migrants to Latin America.
[4] 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.

INTERGOVERNMENTAL COMMITTEE FOR EUROPEAN MIGRATION

Mr. PASSMAN. The Intergovernmental Committee for European Migration is the first program. The fiscal 1972 estimate is $3,250,000, which is $250,000 above the program level of fiscal 1971. I believe Mr. Shriver previously asked that question.

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. Would you, at this point, elaborate a bit more as you indicated you would earlier, on the need for the increase. Put it in the record.

(The information follows:)

As was indicated earlier in the testimony, the increased request of $250,000 for the Intergovernmental Committee for European Migration (ICEM) is pri-

marily because of our estimate of increased movements of refugees from 52,000 to 58,000, in 1972. We have estimated this increase because we believe that the continued unrest in Eastern European countries together with repressive measures designed to exercise greater controls over the population are likely to result in larger numbers of refugees leaving the Communist dominated areas with resultant increase of the demands upon ICEM to move these people. In addition, we are very hopeful that by 1972 the U.S.S.R. may be willing to permit the exit of greater numbers of Soviet Jews to augment those now being moved by ICEM. Our increased estimate and request for funds is designed to permit ICEM to fund the additional movements which we anticipate will develop.

Mr. PASSMAN. You state the increase is needed to meet the increasing demand on your operations. Have the number of refugee movements increased over the last several years?

Mr. KELLOGG. The number has not been decreasing.

Mr. PASSMAN. I meant they have been increasing. That is how you justify an increase in the program.

Mr. KELLOGG. We expect, Mr. Chairman, an increase in 1972, and a rather substantial one. The total number of refugees that we expect to be handling in 1972 is 58,000, which added to migrants makes a total of 81,000.

Mr. PASSMAN. If you will, please put a table in the record at this point, for the past—are you quoting calendar or fiscal years?

Mr. KELLOGG. Calendar.

NUMBER OF REFUGEES AND APPROPRIATION REQUESTS, 1965–70

Mr. PASSMAN. Place in the record if you will, 1965–70 inclusive, that gives us 6 years, the number of refugees handled and the appropriation request for this item. Give us your estimates for fiscal 1972.

(The information follows:)

U.S. CONTRIBUTIONS TO ICEM AND NUMBER OF MOVEMENTS 1965–72

	U.S. contribution	Movements of migrants	Movements of refugees	Total movement
1965	$4,553,578	29,688	37,343	67,031
1966	3,852,062	23,090	30,452	53,542
1967	3,350,000	20,414	35,410	55,824
1968	2,500,000	29,319	51,070	80,389
1969	3,550,000	30,189	59,528	89,717
1970	3,000,000	26,541	52,357	78,898
1971	3,000,000	28,200	52,000	80,200
1972 [1]	3,250,000	23,000	58,000	81,000

[1] Estimated.

Mr. PASSMAN. Would you be in a position to make any helpful estimate of future year workload?

Mr. KELLOGG. I believe, sir, it is difficult enough to look into the future as far ahead as 1972, and to go beyond that I think would be very hazardous.

CONTRIBUTIONS AND MEMBER COUNTRIES OF ICEM

Mr. PASSMAN. Mr. Director, would you also place in the record a list of the 31 member governments by name and the amount each contributes to ICEM?

Mr. KELLOGG. Yes, sir.
(The information follows:)

GOVERNMENTAL CONTRIBUTIONS TO ICEM IN CALENDAR YEAR 1970

Country	Amount	Percent of total	Country	Amount	Percent of total
Argentina	$104,296	0.55	Luxembourg	$8,821	.05
Australia	10,789,581	56.62	Malta	128,950	.68
Austria	49,644	.26	Netherlands	606,390	3.18
Belgium	147,030	.77	New Zealand [1]	31,217	.16
Bolivia	3,958	.02	Nicaragua	3,958	.02
Brazil	99,126	.52	Norway	23,283	.12
Canada [1]	810		Panama	4,708	.03
Chile	24,026	.13	Paraguay	3,958	.02
Colombia	33,776	.17	Peru	8,149	.04
Costa Rica	4,058	.02	South Africa	1,235,707	6.49
Denmark	27,940	.15	Spain	201,441	1.07
Dominican Republic	3,958	.02	Sweden [1]	14,235	.07
Ecuador	17,439	.09	Switzerland	137,277	.72
El Salvador	4,558	.02	United States	3,000,000	15.74
Germany	601,519	3.16	Uruguay	4,656	.02
Greece	452,054	2.37	Vatican [1]	10,000	.05
Honduras	3,958	.02			
Israel	766,166	4.02	Total	19,056,647	100.00
Italy	500,000	2.63			

[1] Not member of ICEM.

U.S. PERCENTAGE OF CONTRIBUTIONS TO ICEM

Mr. PASSMAN. What is the U.S. percentage of the total of 31?

Mr. KELLOGG. Do you want the percentage and the dollars?

Mr. PASSMAN. Just the percentage.

Mr. KELLOGG. 15.74, sir, for calendar year 1970.

Mr. PASSMAN. Rounded out, about 16 percent. How does that compare to previous years?

Mr. KELLOGG. In calendar year 1969 we contributed 18.05.

OTHER COUNTRY CONTRIBUTIONS TO ICEM

Mr. PASSMAN. Take the 16 percent, what nation is closest to us?

Mr. KELLOGG. Australia, for example, sir, contributed 56 percent.

Mr. PASSMAN. I believe though they get a large number of trainees going into Australia. That accounts for their willingness to contribute this large percentage, does it not?

Mr. KELLOGG. That is so, sir. I would like to add, if I may, that most nations that contribute to ICEM have a reason for so doing.

Mr. PASSMAN. I appreciate that very frank statement. I have always known that and I think you are the first man who ever admitted it. You take a lot of these European nations. We have A.I.D. people on the Development Assistance Committee in Paris whose job it is to get other nations to put up little tidbits. If you look at it, 95 percent of all the money these other nations put up feeds right back into their former colonies, where they have very strong and profitable trade agreements. Just as you say, they have a reason, whereas ours is just because we are a wealthy country and we want to help underdeveloped nations and underprivileged people. Isn't it just about that simple? That is our main interest?

Mr. KELLOGG. We have an interest in bringing refugees into this country also, sir, which we do under the ICEM program.

Mr. PASSMAN. That is not our main objective, to bring in trained personnel, is it?

Mr. KELLOGG. No; I wouldn't say so.

Mr. PASSMAN. That is what I thought.

FUNCTIONS OF ICEM

Put a statement in the record in a simplified form as to the actual functions of ICEM.

Mr. KELLOGG. Yes, sir.

(The information follows:)

FUNCTIONS OF ICEM

The Intergovernmental Committee for European Migration (ICEM), with a membership of 31 free-world governments, was established in 1951 to facilitate the movement of national migrants from overpopulated areas in Europe and of refugees from countries of first asylum who could not otherwise be moved. Membership in ICEM is open only to governments which support the principle of the free movement of persons. ICEM provides efficient and moderately priced transport and supporting services to insure that embarkation, movement, and reception of migrants is conducted efficiently. It helps to facilitate the financing of the movements by combining the contributions of the migrants, of emigration and immigration countries, of voluntary agencies, and of other interested governments. It also serves to assist governments in planning and developing their national migration machinery, including the provision of services for the selection and processing for resettlement of migrants and refugees in Europe and for their reception and placement in countries of immigration.

ICEM arranges, on a high-priority basis, for the expeditious resettlement of refugees from Eastern Europe to countries of final resettlement, largely overseas. In recent years well over 60 percent of the total number of persons moved by ICEM to resettlement countries have been refugees. With the improvement in the economies of many European countries, ICEM in its national migrant program now places emphasis on moving persons who are selected for their skills and other qualifications who will be of maximum benefit in meeting the needs of countries of immigration, particularly in Latin America. Countries with excess populations such as Greece, Italy, Spain, and the Netherlands provide the principal source of skilled migrants from their own people, in addition to qualified refugees who still continue to flow into Western Europe from Eastern European countries and North Africa.

It is in the interest of the United States to support ICEM as a skilled and tested organization which has brought order in the hitherto unplanned field of international migration and which provides machinery for reducing the political and economic problems caused by accumulations of refugees and of excess populations. The political advantages of reducing the human problems arising from the flow of refugees is in our national interest as is the provision of skilled and needed types of people in developing countries, particularly in Latin America, where ICEM also is helping to develop group agricultural settlements which include predominantly native farm settlers assisted by a nucleus of experienced European refugee or migrant farmers.

STAFF OF ICEM

Mr. PASSMAN. How big is the staff of ICEM?

Mr. KELLOGG. May we supply that for the record, Mr. Chairman?

Mr. PASSMAN. Yes, but I would like to get a little information now if I could.

Mr. KELLOGG. As to people, sir?

Mr. PASSMAN. Yes. I want to know the number of people. Also place in the record their actual functions performed.

Mr. KELLOGG. We will be glad to furnish that, sir.
(The information follows:)

The total number of personnel on the staff of the Intergovernmental Committee for European Migration (ICEM) is 524. This is made up of 80 professional (officer level) and 444 nonprofessional (clerical and administrative) positions.

ICEM is broadly organized in two parts: the headquarters and the liaison missions and representatives.

The headquarters is responsible for overall direction, supervision, and implementation. The headquarters is divided functionally into the following departments:

Office of the Director.
Department of Administration.
Department of Budget and Finance.
Department of Transport.
Department of National Migration and Refugee Assistance.
Department of Latin American Programs.
Auxiliary Services.

Liaison Missions and Representatives are located in:

Argentina.
Australia.
Austria.
Belgium.
Brazil.
Chile.
Colombia.
Costa Rica.
Ecuador.
Germany.
Greece.
Hong Kong.
Italy.
Peru.
Spain.
South Africa, Republic of.
United States.
Uruguay.

The functions of the liaison missions and representatives are:

(a) Render the government of the country in which the mission operates any assistance which may be required to promote migration within the established policies of the ICEM governing bodies.

(b) Cooperate with the government in formulating programs of movements under the auspices of ICEM and provide the Government upon request with such advice as may be necessary for the development of migration plans.

(c) Keep the director informed of the progress of each program or function and submit to the director proposals for the annual program and budget estimates, staffing requirements, etc.

(d) Establish and handle the operational and technical services necessary for the execution of the ICEM programs, and the decentralized administrative, financial and public relations services of the committee.

(e) Keep the director informed on the economic, social, and political trends of the country with a special view to modifying the activities of the committee in the light of these conditions and trends.

(f) Cooperate with diplomatic and other representatives of member governments in the area of the mission and with representatives of other international organizations interested in or dealing with migration matters.

(g) Maintain relationships and coordinate the work of ICEM as applicable with the national voluntary agencies and their counterparts of international voluntary agencies, selection missions, etc., to ensure that migration matters are dealt with in the manner prescribed by the interested member governments, as well as carried out in the manner prescribed by the director.

Mr. PASSMAN. Do you have any information on that now?
Mr. KELLOGG. No, sir.

ADMINISTRATIVE EXPENSES—ICEM

Mr. PASSMAN. Could you tell us the amount of the administrative expense for ICEM?

Mr. KELLOGG. Yes, sir; I can. The estimate for 1971 of the administrative program for ICEM is $2,567,750.

Mr. PASSMAN. That is the administrative personnel cost.

Mr. KELLOGG. Yes, sir. We earmark our contribution between operations and administration, and of the amount that we give to ICEM, $800,000, goes towards their administrative budget, based on a formula agreed upon between the 31 countries.

(Discussion off the record.)

Mr. PASSMAN. I don't want to leave the record showing $2,800,000 of the total goes purely for administrative expense. That represents the total figure of all nations, does it not?

Mr. KELLOGG. That is correct. Mr. Chairman, as you know, we are asking for $3,250,000 for ICEM.

Mr. PASSMAN. You are asking for $3 million, aren't you?

Mr. KELLOGG. $3,250,000. That is specifically distributed as follows: $800,000 for ICEM's administration and the balance for operations.

Mr. PASSMAN. That is about 25 percent for administration. That is rather high, isn't it, as we think of it in terms of administrative expense for an agency of this type.

Mr. KELLOGG. Sir; they must have a sufficient staff to handle the thousands of refugees they are moving all over Europe to as far away as Australia, Canada, and the United States.

DISTRIBUTION OF ICEM ADMINISTRATION EXPENSES

Mr. PASSMAN. Give us a breakdown in the record of what the administrative expense is comprised of.

Mr. KELLOGG. Are you now speaking, sir, of the overall ICEM budget or simply that part which we give them?

Mr. PASSMAN. We had better limit it to the appropriation request here. Don't you think that would be better?

Mr. KELLOGG. I can do it either way.

Mr. PASSMAN. I think it would be better to limit it to this request, because that way it is easier to understand.

(The information follows:)

For the year 1971, that part of the U.S. contribution to the Intergovernmental Committee for European Migration attributable to ICEM's administrative expenses is $800,000 ($796,570). This amount is not earmarked for any particular type of expenses and we assume it will be distributed across the budget proportionately.

ICEM estimated administrative expenses 1971

Personnel costs, salaries, allowances	$2,200,900
Administrative travel	56,000
Communications	58,000
Rent and maintenance of facilities	87,550
Office supplies and equipment	71,800
Other costs	93,500
Total	2,567,750

ICEM—20TH ANNIVERSARY CEREMONY

Mr. PASSMAN. In the administrative budget for fiscal 1971, I note there is an item for $40,000 for observance of the Committee's 20th anniversary. What kind of an observance did you have, and where?

Mr. KELLOGG. This is still pending, Mr. Chairman. It has not yet taken place.

Mr. PASSMAN. This smacks of waste. Can you give us a little explanation?

Mr. KELLOGG. I heard this matter discussed for the first time when I was at the meeting in Geneva this fall, Mr. Chairman. It was formally adopted by resolution. I think it was a suggestion by the ICEM management. I think they had in mind a film showing some of the work that they do, and certain publications, and possibly following the pattern of the UNHCR, a record which actually in the case of the UNHCR has turned out to be a moneymaking proposition. This is my impression gained at that meeting in Geneva.

Mr. PASSMAN. But you are still thinking of spending $40,000 for observance of the committee's 20th anniversary.

Mr. KELLOGG. Mr. Chairman, may I add the main purpose of this observance is to attract the attention of governments and of private sources to the work which ICEM is doing in behalf of the refugees, in the hope that it will increase the contributions from other governments, and also will provide some private funds. The United Nations High Commissioner for Refugees has had a very successful effort in terms of using events of this kind as fundraising devices, and this is what this would be for, sir.

Mr. PASSMAN. Is it going to make you any better?

Mr. KELLOGG. I don't think the United States——

Mr. PASSMAN. Don't you think other nations, who are within spitting distance of these problems and living with them, are just as familiar with the operation as we are? I don't want to be unfair about this but we have been so lenient over the years with all of these programs, and an awful lot of money is squandered. As applied to governments, I don't think you are going to impart any information to Australia or to Geneva where this organization is domiciled. Do you think you are going to enhance their appreciation of the program?

Mr. KELLOGG. Mr. Chairman, the Director, Mr. Thomas, whom you know——

Mr. PASSMAN. I know him. He is a nice fellow.

Mr. KELLOGG. He feels on the basis of his discussions with members of other governments, that the function of ICEM is not fully understood and that this kind of an effort would be useful in the final analysis in increasing the donations from other governments.

Mr. PASSMAN. It is not just the $40,000. I am just making a record on this because this is just one of the hundreds of thousands of other items that is going to help make up the $20 billion deficit this year. From little acorns big trees grow. This is something new, isn't it?

Mr. KELLOGG. This is a one-time effort.

Mr. PASSMAN. They have had 19 anniversaries, haven't they, up to this point? That is what this is, isn't it, observance of the organization's 20th anniversary? They had 19 anniversaries prior to this one, didn't they?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. And this is the only one that we are going to spend $40,000 on for observance?

Mr. KELLOGG. It is primarily a fund-raising effort, sir. They hope that they will more than get the money back.

Mr. PASSMAN. I never heard of fund raising to be called an observance. Let's get the exact language, and not get this confused. I think I know what it is. We have other clambakes going on in many of these international organizations. Some of them are really humdingers, especially if you got out to the Asian Development Bank. You are really going to find where the money is going down the drain. I wish you could get off the defensive and give us the actual facts so we can see if it is for representation allowance for all of you to get together and brag to each other. I imagine that is what it is, a nice little party to observe the anniversary. That is usually what you do on anniversaries, isn't it?

Mr. SOBOTKA. I think there is a fund-raising purpose behind it.

Mr. PASSMAN. That is what I am trying to establish for the record. I suspect these nations know just as much about this organization as we do. It would be unbelievable that they wouldn't because they can just walk outside and almost look over into Yugoslavia where some of these people are coming from, can't they?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. They are a lot closer to these problems than we are. Wouldn't you think that?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. I don't think you are going to impart any knowledge to them about this.

UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES (UNHCR)

The next program, very briefly, is the United Nations High Commissioner for Refugees. For fiscal 1972 the estimate is $1 million, the same as last year. Is that correct?

Mr. KELLOGG. It is entirely correct; yes, sir.

Mr. PASSMAN. Will you explain briefly the duties of the UNHCR? Spell it out and put it in the record.

Mr. KELLOGG. Yes, sir.

(The information follows:)

DUTIES OF THE UNHCR

The Office of the United Nations High Commissioner for Refugees was established in 1951 by the United Nations General Assembly primarily for the purpose of securing international legal and political protection for refugees. He was also charged with promoting solutions to refugee problems.

The first and most important element of legal and political protection is to assure that the repatriation of refugees is voluntary, that refugees are never forcibly repatriated and that they are given effective asylum from persecution.

The second element is to assure for refugees certain additional rights, such as the right to work, the right to engage in self-employment, the right of their children to attend schools, freedom of movement, freedom of religion, and so forth. It is essential for refugees to have these rights if they are to have an opportunity to cease being refugees and to become truly rehabilitated so that they may terminate their dependence on international relief, earn their own living, and again live a decent life with self-respect.

Beginning in 1955 the High Commissioner, with the express consent of the General Assembly, initiated a material assistance program for which funds are contributed voluntarily by various governments and other entities. This program enables the High Commissioner to work out permanent solutions for refugees who are not handled through other mechanisms. In practice, this has meant that his chief material assistance function has been the local integration of refugees in the countries of first asylum. At the present time the UNHCR worldwide material assistance program is concentrated largely in developing countries, especially in Africa.

CONTRIBUTIONS AND MEMBER COUNTRIES OF UNHCR

Mr. PASSMAN. Also provide for the record a list of the countries that contributed to this program and the amount each one contributed last year, and what you expect them to contribute this year.

Mr. KELLOGG. Yes, sir.

(The information follows:)

GOVERNMENT CONTRIBUTIONS AND PLEDGES TO THE UNHCR PROGRAM, 1970-71[1]—Continued

	1970	1971
Algeria	*$6,943	
Argentina	12,000	*$12,000
Australia	194,425	196,000
Austria	30,000	30,000
Bahamas	2,992	
Belgium	200,000	200,000
Botswana	1,000	
Brazil	2,000	
Burundi	1,000	1,140
Cameroon	360	
Canada	386,473	400,000
Central African Republic	1,442	
China, Republic of	7,500	10,000
Congo (Brazzaville)	1,000	
Congo (Kinshasa)		3,000
Cyprus	480	600
Denmark	253,333	306,000
Dubai	2,070	3,000
Ecuador	1,000	
Ethiopia	3,000	
Finland	65,000	75,000
France	389,842	450,000
Gabon	1,216	
Gambia	240	
Germany, Federal Republic of	409,836	464,500
Ghana	4,615	
Greece	14,000	14,000
Holy See	2,500	2,500
Iceland	5,743	5,750
India	10,000	13,333
Iran	8,000	8,000
Iraq	9,722	
Ireland	10,000	15,000
Israel	7,500	7,500
Italy	20,000	20,000
Ivory Coast	2,700	3,240
Japan	30,000	30,000
Kenya	1,000	
Khmer Republic	1,000	
Kuwait	3,000	
Lebanon	2,000	
Liberia	$5,000	$5,000
Libya	5,000	
Liechtenstein	3,472	
Luxembourg	4,000	4,000
Malagasy Republic	834	900
Malawi	360	
Malaysia	1,000	1,000
Malta	1,000	
Mauritius	1,000	1,000
Monoco	180	
Morocco	10,000	10,000
Nepal	2,272	
Netherlands	180,278	189,000
New Zealand	22,400	
Nigeria	5,600	5,600
Norway	273,415	345,000
Pakistan	2,500	2,500
Panama	500	
Peru	1,000	
Philippines	1,250	
Portugal	4,000	
Saudi Arabia	8,000	
Senegal	3,597	3,600
Sierra Leone	2,308	
Southern Yemen	480	
Sovereign Order of Malta	2,000	
Sudan	3,159	
Sweden	400,000	600,000
Switzerland	185,185	200,000
Tanzania	3,500	
Togo	1,439	1,440
Trinidad and Tobago	1,500	
Tunisia	2,500	2,500
Turkey	3,000	
Uganda	5,000	5,000
United Arab Republic	6,900	
United Kingdom	359,971	359,971
United States of America	1,000,000	
Uruguay		523
Vietnam, Republic of	1,000	
Yugoslavia	10,000	10,000
Zambia	2,800	3,300
Total	4,632,332	4,020,897

[1] Paid, pledged, or anticipated to date.

NONGOVERNMENT CONTRIBUTIONS TO UNHCR

Mr. PASSMAN. Place some information in the record as to what other contributions the United Nations High Commissioner receives, other than the country contributions.

Mr. KELLOGG. In other words, from other sources?

Mr. PASSMAN. Yes; other sources.

Mr. SOBOTKA. Nongovernment?

Mr. PASSMAN. Yes; nongovernment.

(Information follows:)

NONGOVERNMENT CONTRIBUTIONS TO THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES

	1968	1969	1970
Non-Government contributions to UNHCR trust funds	$316,208	$423,734	$262,045
Non-Government contributions to UNHCR program funds	389,657	124,332	263,155

ADVANTAGES OF UNHCR TO UNITED STATES

Mr. PASSMAN. It is stated that the United States should provide the contribution to the UNHCR in order to help provide assistance to refugees in programs which promote peace and are advantageous to U.S. political interests. Would you please explain this statement and point out which programs are advantageous to U.S. political interests?

Mr. KELLOGG. Well, I believe, sir, that the prime function of the UNHCR; namely, the political protection of refugees, is a definite advantage to the United States. Anything that helps refugees in their movement from the Iron Curtain countries to their ultimate country of resettlement or during that passage is helpful in increasing the chances of world peace, and that certainly is to the interest of the U.S. Government.

Mr. PASSMAN. Thank you. You may want to put some additional information in the record.

(Information follows:)

REASONS WHY UNHCR ACTIVITIES ARE ADVANTAGEOUS TO UNITED STATES INTERESTS

UNHCR legal and political protection activities are designed to safeguard asylum for refugees, and also to secure for refugees a number of specific rights within countries of asylum. It is essential that refugees have these rights if they are ever to become self-supporting members of their new societies, living in dignity and self-respect and able to contribute to the stability of their new countries. These rights, which include the right to hold gainful employment, to freedom of religion, freedom of travel, access to courts, eligibility for public education and social security programs and numerous other rights, enable the refugee (perhaps with the temporary aid of material assistance programs) to rehabilitate himself, and to cease being a refugee and thus a charge upon international relief resources.

UNHCR success in this respect in behalf of individual refugees, and in advancing broader acceptance among nations of the humane and civilized standards involved, makes a definite contribution toward the maintenance of peace. Such efforts are the essential platform for the solution of refugee problems. Refugee problems are an outgrowth of international tensions, domestic frictions, and/or aggression or civil strife. Unresolved refugee problems become loci of unrest, agitation and controversy, further exacerbating existing political issues and tensions. On the other hand, solutions to refugee problems lead to settlement of the broader related problems and thus to the removal of tensions and in the end to the preservation of peace.

The UNHCR material assistance programs, which could not be meaningful in the absence of effective legal and political protection for refugees, are an important complementary UNHCR activity. They are primarily designed to bring about the rehabilitation through local integration in asylum countries of refugees who cannot or should not emigrate to other countries. These programs are conducted predominately in developing countries, especially in Africa where there is a proliferation of sensitive refugee problems. The resettlement of refugees on the land within asylum countries is carried out under mass agricultural resettlement projects which promote not only the rehabilitation of the refugees but the economic and social development of the areas concerned. These projects are therefore a significant contribution to peace and stability: by resolving

amicably and constructively problems which seriously affect the maintenance of friendly relations between African countries; and by assisting the asylum countries (many of them newly independent and having only meager resources) in coping with an unduly large additional economic burden. Thus, the programs conducted by the UNHCR advance both the political and humanitarian interests of the United States.

This is particularly true in those areas of the world where we do not conduct direct U.S. Government refugee assistance programs. In Africa for example, the United States has not attempted, and in most instances would probably be unable to establish within African asylum countries, direct assistance programs in behalf of refugees from friendly African countries. Not only could such assistance damage our friendly relations with a number of African countries, but the concerned nations themselves—some of which are both countries of origin and countries of asylum for refugees—have tended to discourage direct assistance programs by non-African governments. These same countries have, however, welcomed and urged greater United Nations efforts in this field and the United Nations has in recent years adopted several resolutions which explicitly recognized the increasingly important role of the UNHCR in African refugee problems, and call upon governments for larger contributions to support that effort.

Additionally, the sheer humanitarian values in the UNHCR program are immense. In addition to his own approved budget, the UNHCR is effective as a catalyst in mobilizing large additional resources from the international communities toward the relief of refugees suffering and restoration for them of hope and opportunity to live as a human being. Consistent with our national tradition of concern for the suffering and the persecuted, our support of the humanitarian activities of the UNHCR is important in itself and in keeping with our image among other nations as a leader in humanitarian assistance for refugees.

FAR EAST REFUGEE PROGRAM—CHILDREN'S ORTHOPEDIC HOSPITAL

Mr. PASSMAN. Mr. Director, I notice on page 5 of your prepared statement you state:

"I might add, Mr. Chairman, that we intend to insure that the FERP program provides an X–ray machine for the Children's Orthopedic Hospital at Sandy Bay, for which you laid the cornerstone while on an inspection tour of the Far East Refugee Program in Hong Kong in 1965."

I want to commend you, sir, for making this decision because they are operating on a tight budget, and they are doing extremely valuable work there. I ran into some outstanding physicians, specialists, from our country when we were there last year. They were dedicated young doctors serving without any compensation just so as to impart knowledge. I was very, very much impressed, and no person could go visit with these little children in the John F. Kennedy Spastic Center and this convalescent home without being impressed. Sometimes you do get a return on these very small investments. I think the same thing is true with the leprosarium where we make a small contribution annually.

Mr. KELLOGG. That is right.

Mr. PASSMAN. And that is almost a showroom of the world and they go there and see this and see that it is named after the former President of the United States and they know it was aided with American funds. I noticed at the leprosarium where we had made contributions that those people have very prominent placques on display showing that these funds came from the United States.

So they need this very badly. We have the surplus funds over and above what it cost to build the hospital and I am glad that we are utilizing them for an X-ray machine.

REFUGEES FROM EUROPEAN COMMUNIST COUNTRIES (USRP)

The next program is the refugees from European Communist countries. The fiscal 1972 estimate is for $2.9 million. In this instance it is a decrease of $104,000 below the 1971 program level. Is that correct?

Mr. KELLOGG. That is correct, sir.

Mr. PASSMAN. We are glad to see these reductions and is it just a question of whether, in previous years you had requested too much money and you wanted to cut it back to the actual need, or has some other adjustment brought this about?

Mr. KELLOGG. There is a very small reduction in the number of refugees that are estimated for this program, Mr. Chairman, a decrease from the 36,000 estimated in 1971 to 34,000 estimated for 1972. There is a very small increase in the cost per capita——

Mr. PASSMAN. You are actually moving fewer refugees?

Mr. KELLOGG. Fewer refugees.

Mr. PASSMAN. That naturally would necessitate a reduction in appropriations, would it not?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. It is not nearly as attractive as it may appear on first reading because in 1971 the original request was only $404,000 and it only appears to be a reduction if we take the funds from the Presidential determination of $2.6 million into account. If you base it on the regular appropriation it is possibly five times higher, isn't it?

Mr. KELLOGG. Well——

Mr. PASSMAN. So it is only a reduction if you look at the Presidential determination of $2.6 million, and the $404,000 regular request. If you only compare it with last year's request, instead of being a reduction it is about 4.5 times as high as your last year's original request; is that right?

Mr. KELLOGG. That is correct, sir.

Last year's request, however, had in mind the fact that there were funds from the Presidential determination order.

Mr. PASSMAN. But you mix these two things up. It just confuses the record. You take the regular request and you wind up with a grand total of four or five times higher than the original request, and we just wonder. We have to take your word that this tremendous increase is actually justified.

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. You say that it is. We have to take your word, but when you go from $404,000 up to $3 million, that is a tremendous increase. Now, if you have surplus funds and you build one of these little buildings like the John F. Kennedy Spastic Center, that comes out of your request for Refugees from Communist China only, doesn't it?

Mr. KELLOGG. That is correct, sir.

U.S. REFUGEE PROGRAM FINANCED WHOLLY FROM U.S. FUNDS

Mr. PASSMAN. Now, with respect to the refugees from European countries, this is the only U.S. refugee program which is wholly financed by the United States; is that correct?

Mr. KELLOGG. That is correct, sir; yes, sir.

Mr. PASSMAN. Would you please explain why the United States finds it necessary to provide supplementary funds for refugee assistance when quite a few organizations, increasing every year, are providing such assistance?

Mr. KELLOGG. Mr. Chairman, I am proud to say that Americans have a reputation for being able to move quickly and efficiently. Probably the most critical moment in a refugee's history is the early days when he has escaped from behind the Iron Curtain and is trying to reestablish himself in the country of first asylum. It is at this moment that USRP can step in and with relatively small amounts of money help to keep that refugee alive and clothed and provided with medical assistance.

Mr. PASSMAN. Since the European countries are well developed, very prosperous, waxing fat with their very strong economies, why can't they provide the total amount of assistance without supplementary assistance from the United States in this particular program?

Mr. KELLOGG. I think there are a number of answers to that question, Mr. Chairman. One is that the European countries are in fact carrying the main burden. As a case in point, Germany contributes over $1.5 billion toward refugees and expellees of German extraction who come into Germany. Likewise the other foreign countries contribute considerable amounts. I regard this as an international problem. In other words, these refugees are not just Austria's or Italy's problem. If the United States is part of the international community we have some responsibility to contribute to their health and well-being.

Mr. PASSMAN. But this is a program wholly financed by the United States. This is strictly a bilaterally financed program. Now, do all the European nations have an independent bilateral program similar to this?

Mr. KELLOGG. I am not sure.

Mr. SOBOTKA. Mr. Chairman, almost every European nation has a program for helping refugees that come to their own country. They spend roughly $40 million a year as far as we can determine on this type of thing. In addition to that, many of the European countries also contribute to refugee problems in other parts of the world.

Mr. PASSMAN. Of course the United States does also.

Mr. SOBOTKA. That is right.

Mr. PASSMAN. But this is the one program that is wholly financed by the United States that we are talking about.

Mr. SOBOTKA. Mr. Chairman, you are familiar with the Hong Kong situation. The West German Government has made direct German Government contributions to projects in Hong Kong, for an example of what other countries do. It has contributed very substantial amounts of money.

Mr. PASSMAN. I don't care how many years you sit over here and examine items of this type; when you have several agencies, on the surface it looks like they are doing identically the same work in dealing with refugees and it is pretty hard to understand why we don't have it under one heading so far as it could be done, and that is why I ask the question. Since it is bilateral, if all the other European nations have similar programs, even though we established for the record

earlier they may have a different viewpoint than we do, why do we get into it? I thought one of the purposes of the USRP was to keep the United States before these refugees and impart a favorable U.S. image that we actually want to help underprivileged people. Would that be one of the main purposes?

Mr. KELLOGG. No question about it; yes, sir.

Mr. PASSMAN. Because we know very well that these European nations could pick this up and wouldn't miss it. They could throw that much away in 1 day. Unless it has some other purpose, and I believe that is the purpose, to let these people know that we are anxious to help them when they escape from these countries, and I would rather say bondage——

NUMBER OF REFUGEES BY REFUGEE PROGRAM

Mr. GALIFIANAKIS. Mr. Chairman, how many refugees are we talking about?

Mr. PASSMAN. Let's see. That is a good question. Let's see if we can't get something in the record that will pin this down because we have about four or five different types of refugee programs. Even some of the Cuban refugees are reaching this country through third countries, aren't they?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. Do you have a general statement you can put in the record as to the number of refugees working out of each one of these programs?

Mr. SOBOTKA. Yes, sir.

Mr. PASSMAN. And the difference between one program and the other?

Mr. SOBOTKA. Yes, sir.

(The information follows:)

During 1972, it is expected that approximately 34,000 refugees from Eastern European countries will be assisted by U.S. Refugee Program (USRP) in countries of first asylum. The principal purpose of USRP is to demonstrate the humanitarian concern of the United States for refugees from European Communist countries by providing on a priority basis, through accredited voluntary agencies, supplementary care and maintenance on the basis of need, and more importantly, processing assistance to bring about the expeditious resettlement of the refugees in other countries.

During the same year the Intergovernmental Committee for European Migration (ICEM), whose principal functions are to promote the development of emigration opportunities and to provide transportation for resettlement from Europe to other destinations, expects to move approximately 58,000 refugees as well as 23,000 national migrants to their new homelands, chiefly overseas.

There are approximately 3.5 million refugees throughout the world who fall within the competence of the United Nations High Commissioner for Refugees (UNHCR). Of these, slightly more than 1 million, the bulk of whom are in Africa, receive material assistance of some form or another from UNHCR. This is done pursuant to his mandate to promote permanent solutions for refugees who are unwilling voluntarily to return to their countries of nationality. However, the main function of UNHCR is to provide international protection for refugees and to secure for them the legal and political rights which will enable them to become self-supporting and to live in dignity and self-respect.

The Far East Refugee Program (FERP) provides conspicuously-needed assistance to certain Chinese refugees in Hong Kong, on a highly-selective basis. Projects are chosen on the basis of need and for their potential value in promoting the basic objectives of the program, which are to demonstrate the continued

concern of the American people for the well-being of the more than 2 million Chinese refugees in Hong Kong, and thus to reaffirm the traditional friendship of American people for the Chinese people on the mainland and elsewhere. The program also serves to promote the Western orientation and stability of the refugees in Hong Kong and thus of Hong Kong itself, and additionally serves to negate Communist propaganda that Americans have no concern for the people of the Chinese race.

The International Committee of the Red Cross (ICRC) supervises the implementation of the Geneva Conventions of 1949 relating to the amelioration of the conditions of 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. Because of its established reputation for neutrality, the ICRC is often the only external agency permitted to enter certain countries in time of warfare or severe political tensions, to pursue its humanitarian aims and service and to extend medical and other relief assistance. ICRC has provided help through a wide range of services in many situations and areas in different parts of the world where direct U.S. activity would not be possible or feasible. For example, it is endeavoring to promote humanitarian protection and welfare services for American prisoners of war and civilians detained by North Vietnam and by the Communist Pathet Lao in Laos. It has also been helpful in effecting the release of passengers in hijacked aircraft and in operating emergency relief programs in disaster areas.

Mr. GALIFIANAKIS. I was just wondering, with this $8,650,000 for fiscal 1972, how many people are we contemplating would be assisted?

Mr. PASSMAN. That is a good question. Do you have that answer now?

Mr. KELLOGG. I believe so. I want to identify, if I may, the figure that you mentioned.

NUMBER OF REFUGEES ASSISTED BY USRP

Mr. GALIFIANAKIS. How many refugees do you contemplate will receive assistance in 1972?

Mr. PASSMAN. Out of this one program, the one that is wholly financed by the United States.

Mr. KELLOGG. I can give you that, sir. The U.S. refugee program, in 1972, expects to assist 34,000 refugees.

Mr. GALIFIANAKIS. And you are going to give us a breakdown of the origin of those refugees?

Mr. KELLOGG. Yes, sir; We have that.

Mr. PASSMAN. Mrs. Reid.

Mrs. REID. If you will yield just a moment, Mr. Chairman, also I think it would be well at this point to indicate how you arrive at a figure to determine the approximate number of refugees.

Mr. KELLOGG. You would like to have that included in the record?

Mrs. REID. Yes.

Mr. KELLOGG. Be very happy to supply that.

(Information follows:)

The number of refugees which it is now projected will be assisted by the U.S. refugee program in 1972 is approximately 34,000. It is anticipated that these refugees will be divided by country of origin about as follows:

Albania	400
Bulgaria	1,900
Czechoslovakia	18,600
Hungary	6,400
Poland	3,600
Romania	2,800
U.S.S.R.	300
Total	34,000

Looking forward into the future and anticipating what will happen 2 years hence is an extremely precarious exercise at best. It is doubly so in the refugee field. By their very nature, refugee problems are difficult to predict, their exact future dimensions impossible to define. Many different countries and many different influences in each country are involved. Political, economic, religious, and many other factors, unknown to us now will have their effect on refugee problems in the next 2 years.

Nevertheless, there are several elements upon which projections may be based. Most important is past experience. We know that the number of refugees assisted for the last 10 years has been as follows:

1961	20,549
1962	12,920
1963	7,091
1964	6,364
1965	8,167
1966	8,978
1967	9,826
1968	26,732
1969	53,412
1970	40,680

In refining the information derived from experience we know what the composition of the refugee influx has been by country of origin, by religion, by profession and education, and thus we are aware of the reasons why refugees have fled to the West. Furthermore, we know the conditions of resettlement: what nationalities, religious groups, professions, et cetera, went to which resettlement countries and how they fared in their new homes. We have current information as to political and economic conditions in countries of Eastern Europe which might stimulate or retard potential refugees. We also know something of the strength of border controls, restrictions on border crossings, and opportunities for legal foreign travel for personal, commercial, or official reasons.

We also consider the estimates of the voluntary agencies, the Intergovernmental Committee for European Migration, and the United Nations High Commissioner for Refugees.

The amalgam of information available to us is very complex, but we apply experienced judgment and come up with the best estimate we can make. We usually find that our estimates are fairly accurate, but sometimes, as in the Czech crisis of 1968, it was impossible to anticipate an increase of that size.

(Discussion off the record.)

POSSIBLE NEED FOR SUPPLEMENTAL FUNDS IN 1972

Mr. PASSMAN. Now, Mr. Director, you state in the justifications that it may be necessary to seek additional funds in fiscal 1972 for this program. This program means, of course, the refugees from the European Communist countries, the one program which is financed wholly by the United States.

Mr. KELLOGG. Yes, sir.

(Discussion off the record.)

Mr. PASSMAN. This reads as though you were possibly laying the foundation for a subsequent supplemental. Is that what you have in mind?

Mr. KELLOGG. No, sir. At this moment we have no such plan in mind.

Mr. PASSMAN. Would you move that ahead possibly a few hours?

You are making too short a term when you say "at this moment." Let's be serious. Really, you don't think it will be necessary to come back for a supplemental?

Mr. KELLOGG. I certainly hope not, sir.

Mr. PASSMAN. I hope not, too.

I hope you won't even need this one. Don't give these vague answers. You really believe this appropriation will be sufficient to see your fiscal 1972 program through without a supplemental?

(Discussion off the record.)

Mr. PASSMAN. Back on the record.

Mr. KELLOGG. Of course I mean it, Mr. Chairman. The only reason that I want to maintain a caveat of any kind is because no one is able to tell when some dreadful occurrence may happen which will create refugees overnight.

Mr. PASSMAN. At the expense of being repetitious, according to your present plans and your estimates it will not be necessary to return for a supplemental? Is that correct?

Mr. KELLOGG. That is correct.

Mr. PASSMAN. Thank you.

REFUGEES FROM COMMUNIST CHINA (FERP)

Mr. PASSMAN. The next program is the refugees from Communist China. The fiscal 1972 estimate is for $500,000, the same as programed last year. Is that correct?

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. Since the program level is the same as last year, I gather you do not anticipate any increase in workloads. Is that correct?

Mr. KELLOGG. Yes, sir; that is correct.

U.S. FUNDS PROVIDED TO HONG KONG AND MACAO

Mr. PASSMAN. Could you provide for the record a table similar to the one on page 45 of last year's hearings, showing the amount of funds provided by the United States to Hong Kong and Macao?

Mr. KELLOGG. Yes, sir.

PUBLIC LAW 480 FUNDS PROVIDED TO HONG KONG AND MACAO

Mr. PASSMAN. And also include a table showing the amount of Public Law 480 funds.

Mr. KELLOGG. 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	Fiscal year	Far East refugee programs	Value Public Law 480 surplus commodities [1]	Total
1954	$285,526	$150,650	$436,176	1965	$611,989	$3,691,200	$4,303,189
1955	956,770	725,650	1,682,420	1966	597,489	2,080,800	2,678,289
1956	831,705	3,979,000	4,810,705	1967	234,723	1,357,400	1,592,123
1957	747,463	7,618,750	8,366,213	1968	220,897	602,100	822,997
1958	951,651	3,520,150	4,471,801	1969	500,000	941,200	1,441,200
1959	1,520,901	3,611,000	5,131,901	1970	500,000	773,500	1,273,500
1960	1,764,013	5,797,150	7,561,163	1971	500,000	[2] 703,300	1,203,300
1961	617,079	7,208,200	7,825,279	1972	[3] 500,000	[2] 104,000	604,000
1962	1,072,571	4,404,500	5,477,071				
1963	2,066,670	3,186,650	5,253,320	Total	16,226,503	52,072,100	68,298,603
1964	1,747,056	1,616,900	3,363,956				

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

PUBLIC LAW 480 FUNDS

Mr. PASSMAN. Now, usually when we think in terms of Public Law 480 funds we are thinking about surplus agricultural commodities such as wheat or flour, and they have the spaghetti and macaroni factories down in Macao and Hong Kong, where these refugees who escape from Red China can come and get food.

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. And I think usually the churches work pretty closely with this program.

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. And I think this small program has provided a lot of very valuable information from the people who have just escaped and they come in and get clothing and food out of the surplus commodities that we furnish. I think it has paid tremendous dividends, and I hope the program is continued.

Now, this is a program where you are able to occasionally make a small contribution to the leper colony.

Mr. KELLOGG. Yes, sir.

(Discussion off the record.)

Mr. PASSMAN. Back on the record.

PROJECTED REFUGEE FACILITIES

What type of refugee facilities do you have on the drawing board for future construction? You can put that in the record if you like.

Mr. KELLOGG. All right, we will be glad to supply it, sir.

(Information follows:)

During 1970, the Far East refugee program contracted $340,600 for the construction of a seven-story addition to the Precious Blood Hospital in Kowloon. It is hoped that this building will be completed by June of next year.

It is now planned that 1971 FERP funds will be used to build an extension to a vocational training school in Kowloon and a social services center, to include vocational training facilities, in Macao.

In 1972, it is tentatively planned to concentrate on building refugee fishermen's villages and community centers in the new territories, Hong Kong.

UTILIZATION OF SURPLUS FUNDS

Mr. PASSMAN. When members of this committee were in Hong Kong last year we were told that a special X-ray machine, costing about $24,000, could be used at the Sandy Bay Children's Orthopedic Hospital. Is that true?

Mr. KELLOGG. That is true; yes, sir.

Mr. PASSMAN. And this is not out of a new appropriation. This is out of the surplus you had in building the JFK Spastic Center, I believe.

Mr. KELLOGG. I believe that is correct, sir.

Mr. PASSMAN. So it is not out of a new appropriation?

Mr. KELLOGG. I don't think so.

Mr. PASSMAN. I think possibly you wound up with a surplus because you had certain private contributions and certain labor help in building this hospital which reduced the original estimate; is that true?

Mr. SOBOTKA. There was a small surplus; yes, sir.

Mr. PASSMAN. But it was brought about by the generosity of some others. Even though it is looked upon as purely U.S. funds, we had a tremendous amount of cooperation from people who are likewise interested in these crippled children.

Mr. KELLOGG. Yes, sir.

Mr. PASSMAN. And these are the funds you are going to use to purchase the X-ray machine, out of the surplus that you still carry?

Mr. KELLOGG. I believe so, sir.

Mr. PASSMAN. That will necessitate an obligation or reobligation, will it not?

Mr. BRYAN. I don't think so.

Mr. PASSMAN. Can you do this?

Mr. BRYAN. Yes, sir.

Mr. SOBOTKA. It was a grant.

Mr. PASSMAN. It was on a no-year basis. It comes out of this grant?

Mr. SOBOTKA. This was a grant; yes, sir.

WORLD REHABILITATION FUND

Mr. PASSMAN. I think the committee is very pleased to note that the $85,000 which remained in the World Rehabilitation Fund will not be used for budget support but will help to improve facilities in that part of the world. Is that correct, sir?

Mr. KELLOGG. Correct, sir.

Mr. PASSMAN. Can you tell the committee at this time for what specific purposes the $85,000 will be used?

Mr. KELLOGG. Do you know the answer to that, Frank?

Mr. BRYAN. No, I don't.

Mr. PASSMAN. You can put it in the record.

(The information follows:)

The Department has authorized the World Rehabilitation Fund to use part of the funds remaining under the grant for the development of an orthotic shop at the Duchess of Kent Children's Orthopaedic Hospital in Sandy Bay. This orthotic shop will serve patients in this hospital, the adjacent John F. Kennedy Center, and outpatients from Hong Kong island.

This will leave adequate grant funds to provide the spinal X-ray machine, and we will ensure that it will be purchased for the Children's Orthopaedic Hospital.

Mr. PASSMAN. I believe U.S. funds should be used to make capital improvements in order that the people in that part of the world can see what the United States has done rather than divide funds for budget support.

Mr. KELLOGG. That is our plan for 1971.

INTERNATIONAL COMMITTEE OF THE RED CROSS

Mr. PASSMAN. The next and final item is the International Committee of the Red Cross. The fiscal 1972 estimate is for $50,000, the same as last year. Is that correct?

Mr. KELLOGG. That is correct, sir.

COUNTRIES CONTRIBUTING TO ICRC

Mr. PASSMAN. What amounts do other countries contribute to this program? You can put that in the record if you like.

Mr. KELLOGG. We will supply that for the record.

(The information follows:)

CONTRIBUTIONS TO THE ICRC FROM GOVERNMENTS AND RED CROSS SOCIETIES IN 1970

	Governments	Red Cross societies
Australia	$16,754	$8,842
Austria	44,677	3,490
Belgium	2,560	3,025
Botswana		466
Burma	1,396	698
Brazil	3,490	
Bulgaria	698	1,396
Camaroon	931	
Canada	19,546	9,308
Central African Republic	698	
Ceylon	698	
Chile	2,094	1,396
China (Peking)		1,164
Columbia	3,956	
Congo (Kinshasa)	2,560	
Costa Rica		233
Czechoslovakia		698
Denmark	13,264	931
Dominican Republic		698
Ecuador	466	698
El Salvador		698
Ethiopia		698
Finland	4,887	698
France	39,791	9,540
Germany, Democratic Republic		1,396
Germany, Federal Republic	55,148	11,402
Ghana	1,396	
Greece	6,748	3,258
Haiti		466
Honduras	931	
Hungary		1,396
Iceland	698	466
India	10,471	466
Indonesia	3,490	931
Iran	4,654	3,490
Iraq	1,862	1,164
Ireland	1,862	1,164
Israel	3,490	
Italy	20,244	
Ivory Coast	698	
Japan	15,125	10,006
Jordan	2,792	
Korea, Democratic Republic (North)		$466
Korea, Republic of (South)	$3,025	1,629
Lebanon	7,912	931
Liechtenstein	2,327	931
Luxembourg	698	1,164
Malaysia	1,396	
Malta	466	
Mexico	3,956	
Monoco	931	931
Morocco	3,490	
Nepal	233	
Netherlands	3,490	12,798
New Zealand	6,748	2,560
Nicaragua	466	698
Nigeria	1,396	
Norway	4,654	
Peru		931
Philippines	3,490	2,560
Poland	6,981	3,490
Portugal	3,490	233
Rumania		2,327
San Marino	698	698
Senegal		466
Sierra Leone	1,629	
South Africa, Republic of	11,169	3,490
Spain	1,862	1,629
Sweden	19,314	2,327
Switzerland	581,731	
Syria		698
Tanzania	466	
Thailand	4,188	1,396
Trinidad and Tobago	466	
Tunisia	466	698
Turkey	2,327	3,723
Uganda	698	
United Arab Republic	9,308	
United Kingdom	23,967	7,213
United States	50,000	25,000
U.S.S.R.		3,723
Venezuela	4,421	
Vietnam, Republic of (South)	931	
Yugoslavia	698	698
Total	1,057,563	163,690

U.S. PRISONERS OF WAR

Mr. PASSMAN. What success has the committee had in protecting and providing welfare services to U.S. prisoners in North Vietnam? My colleague from Kansas covered this in the beginning, and I was disappointed the report was none too good.

Mr. KELLOGG. That is correct, sir. It is very disappointing.

Mr. PASSMAN. Could you go off the record and give us some information that you wouldn't want to put on the record as to why?

(Discussion off the record.)

SOURCE OF FUNDS AVAILABLE IN 1972 TO ICRC

Mr. PASSMAN. What total amount of funds will be available to the ICRC in 1972 and, if you will, indicate the source of funds?

Mr. KELLOG. Yes, sir; be pleased to do that.

(Information follows:)

Anticipated income for ICRC in 1971 [1]

Government and national society contributions	$1,337,209
Gifts and legacies	1,290,697
Investment income	90,698
Earmarked receipts	383,549
Total	3,102,153

[1] Amounts for 1972 cannot be anticipated at this early date. It is assumed that they will be approximately equivalent to those anticipated for 1971.

HIJACKED AIRCRAFT

Mr. PASSMAN. Mr. Director, what role does the ICRC play in the case of hijacked aircraft, if any?

Mr. KELLOGG. It becomes the intermediary between the hijackers and the rest of the world and is helpful when particular countries can't go in because of the location of the aircraft or the nationalities involved. ICRC can do that because it is a neutral organization.

Mr. PASSMAN. That concludes my part of the examination. I will now yield to the other members as much time as they need. There are a lot of virtues about this program, maybe a lot of waste, but I think possibly this one program, even though I still think $8.6 million is a lot of money, may be one of our better programs because you can see results.

Mr. SHRIVER. Thank you, Mr. Chairman.

I want to agree with the chairman, too, about the accomplishments of the program that you are administering.

AMERICANS ON STAFF OF ICEM

Let me ask a few questions. The U.S. contributes 18 percent of the budget for the Intergovernmental Committee for European Migration. What is the percentage of U.S. staff members of that organization?

Mr. SOBOTKA. You mean how many Americans are on the ICEM international staff, what proportion of the total?

Mr. SHRIVER. What is the percentage?

Mr. SOBOTKA. We will have to furnish that for the record.

(Information follows:)

PERCENTAGE OF U.S. CITIZENS ON ICEM STAFF

According to ICEM's latest staffing pattern, U.S. citizens occupy 12.5 percent of ICEM's professional level positions. The percentage of U.S. staff to total staff, including nonprofessional posts, is 3.8 percent.

Mr. SHRIVER. Are they mostly high or low-level staff?

Mr. SOBOTKA. Most of the Americans happen to be high-level staff.

Mr. SHRIVER. A former valued clerk of this committee is with them.

Mr. SOBOTKA. Yes; performing a very good job there.

Mr. SHRIVER. I know he is. We miss him, but we have a good replacement.

LOCATION OF RESETTLED CZECHOSLOVAKIAN REFUGEES

Would you furnish for the record a tabulation of where most of the refugees from Czechoslovakia were settled?

Mr. KELLOGG. Yes, sir; be pleased to do that.

(Information follows:)

Most of the refugees from Czechoslovakia (85 percent) were resettled in Canada, the United States, Australia, and Sweden.

AMERICANS ON STAFF OF UNHCR

Mr. SHRIVER. We contribute 19.2 percent of the money for the U.N. High Commissioner for Refugees. Again, what is the percentage of U.S. staff?

Mr. KELLOGG. Yes.

Mr. SHRIVER. This is the same question I asked a moment ago, but now I want the percentage for the U.N. High Commissioner for Refugees.

Mr. KELLOGG. We will supply that, sir.

(The information follows:)

PERCENTAGE OF U.S. CITIZENS ON UNHCR STAFF

The percentage of positions filled by U.S. citizens on the UNHCR professional level staff is 8.2 percent. Of total staff, including nonprofessional positions, the U.S. staff percentage is 3.5 percent.

UNHCR ACTIVITIES IN SOUTH AFRICA

Mr. SHRIVER. Does the High Commissioner still provide educational services and other programs for refugees in South Africa?

Mr. KELLOGG. For refugees from South Africa, in a relatively small way, yes, sir.

Mr. SHRIVER. And are any programs financed for people still in South Africa?

Mr. KELLOGG. For people——

Mr. SHRIVER. Still there, still in South Africa.

Mr. KELLOGG. The UNHCR is very active in Africa, and very helpful, but not within South Africa.

Mr. SHRIVER. What is the nature of those programs?

Mr. SOBOTKA. The High Commissioner wouldn't have a mandate to be helping South Africans within South Africa itself, but he does have an educational fund for helping refugees including those from southern Africa generally.

Mr. SHRIVER. Now, there was a request for funds before this committee in at least 2, or maybe 3, different years previously that were rejected by this subcommittee. My understanding was that the High Commissioner had a program for people that are in South Africa.

Mr. KELLOGG. Not to my knowledge, sir.

Mr. SHRIVER. Will you check that out?

Mr. KELLOGG. Yes, sir.

(The information follows:)

The UNHCR has never had any programs within the Republic of South Africa. The United Nations, however, has made provisions to assist South Africans within South Africa through the U.N. Trust Fund for South Africans. This fund was established by the General Assembly in 1965 to (*a*) provide relief to dependents of persons detained by the Government of South Africa because of their opposition to the policies of apartheid, and (*b*) to provide relief for refugees from South Africa. The Fund is financed by voluntary contributions from governments and other bodies. The High Commissioner receives moneys from this Fund to assist refugees from South Africa.

In fiscal year 1968 the United States contributed $50,000 to the Fund—$25,000 to each of the two programs. The State Department in its budget submissions to the Congress for fiscal year 1969 and fiscal year 1970 requested appropriations for an additional U.S. contribution. The request was not granted and there have been no further U.S. contributions to the U.N. Trust Fund for South Africans.

Mr. SOBOTKA. The United States, incidentally, does not contribute to the High Commissioner's special educational fund at the present time. We contribute generally to the total program but not to the special education fund.

Mr. SHRIVER. Are there many U.N. programs that we don't contribute to? I am glad to hear there is at least one.

Mr. SOBOTKA. Mr. Shriver, I am not competent to speak on the total range.

Mr. SHRIVER. We will find that out later.

REQUESTS FOR OTHER REFUGEE PROGRAMS

You are requesting a total program level of $8,650,000 for fiscal 1972. How much is being requested for the other refugee assistance efforts, such as food programs?

Mr. KELLOGG. We don't get involved in food programs. That is a separate program entirely, Mr. Shriver.

Mr. SOBOTKA. We can furnish for the record, however, what other Government agencies are requesting for this purpose.

Mr. SHRIVER. Do that.

(Information follows:)

In addition to the $8,650,000 appropriation requested for fiscal year 1972 refugee and migration assistance, the following are other refugee programs and amounts requested for fiscal year 1972:

Cuban refugee program (HEW)	$144,000,000
Vietnamese refugee program (AID)	39,286,000
Public Law 480 food for peace program (refugee portion)	[1] 30,000,000
U.S. contribution to UNRWA for Palestine refugees	[1] 23,200,000
Laotian refugee program (AID)	[1] 11,900,000
Southern African student program (State Department)	377,705
Regional education/training program for Southern African refugees (AID)	300,000
Total	249,063,705

[1] Estimate.

Mr. SHRIVER. And using the total of all of these programs, would you provide for the record the U.S. total and that of the other free world countries for the latest year possible?

(The information follows:)

The estimated requests for fiscal year 1972 by all U.S. Government refugee programs is $258,000,000.

Several factors impede and in some cases preclude the gathering and analyzing of information on amounts spent by other countries for refugees. Foremost among these factors is that large expenditures for welfare and assistance to refugees are buried in programs for the assistance and general welfare of the population as a whole and are not accounted for separately. Furthermore, large amounts of funds are provided by State, county, and municipal government administrations and are not readily available. Several governments do not separate funds spent on regular immigrants from funds spent on refugees, and several governments spend large amounts on groups of refugees for whom the U.S. Government has no expense. Finally for reasons of their own some countries do not wish to divulge amounts spent for this purpose. Nevertheless, based on the information available it is estimated that other free world countries spend over $2 billion a year on refugees and expellees.

REFUGEES FROM COMMUNIST CHINA

Mr. SHRIVER. Only $500,000 of your request is for refugees from Communist China, but on page 8 of the justifications it is stated that this program demonstrates that we are interested in Asian refugees from communism as well as those in Europe. With over 94 percent of your request going to other areas of the world, do you feel that this $500,000 is sufficient to show our concern in Asia?

Mr. KELLOGG. Well, sir, I think the best answer was supplied in a way by the chairman in that, contrary to our other programs, a fairly substantial portion of our FERP program is devoted to hospitals and other buildings, such as schools, and things of that sort that are visible demonstrations of the U.S. interest in Communist escapees, so that my answer would be although the amount is small I think it does make a definite impression.

Mr. SHRIVER. But other countries are making considerable contributions to the refugees from Communist China, are they not?

Mr. KELLOGG. Yes, sir; I believe they are.

Mr. SHRIVER. Particularly the Crown Colony at Hong Kong.

Mr. KELLOGG. That is right, sir; very substantial contributions.

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

Mr. GALIFIANAKIS. Thank you, Mr. Shriver. Mr. Roybal?

Mr. ROYBAL. I have no more questions.

Mr. GALIFIANAKIS. Mr. McEwen?

VOLUNTEER EFFORTS IN REFUGEE PROGRAMS

Mr. MCEWEN. Mr. Chairman, just one matter I would like to ask Mr. Kellogg about. Your own experience, sir, prior to being in this position was as a volunteer in this area; is that correct?

Mr. KELLOGG. Yes, sir.

Mr. MCEWEN. With regard to voluntary efforts in the refugee program, would you say the voluntary programs are increasing or decreasing in the share of the work that they are doing?

Mr. KELLOGG. I think that estimates are available which show the voluntary agency contributions as compared to U.S. Government funds, and I think, for example, if memory serves me, some voluntary agencies contributed more, and in some cases substantially more, than they received from the U.S. Government. I was very much impressed by this.

Mr. MCEWEN. Could you furnish that for the record?

Mr. KELLOGG. Yes, sir; we will see what information we can develop. (Information follows:)

There follows a table furnished by the Voluntary Agencies Division, Office for Private Overseas Programs, of the Agency for International Development. This table is a compilation of information furnished from reports of voluntary agencies registered with the Advisory Committee on Voluntary Foreign Aid. It represents income for overseas programs only. It is estimated that 10 percent of the total amount is for assistance to refugees.

SUMMARY STATEMENT OF DOLLAR INCOME

U.S. VOLUNTARY AGENCIES REGISTERED WITH THE ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID

By Voluntary Agency Fiscal Year

AGENCY	VOLAG FY CLOSING	TOTAL	REGISTRATION BENEFITS			GOVERNMENT GRANTS AND CONTRACTS	DONATIONS OF COMMODITIES AND EQUIPMENT	PRIVATE CONTRIBUTIONS AND OTHER INCOME
			OVERSEAS FREIGHT PAID BY U.S. GOVT	U.S. GOVT EXCESS PROPERTY	PL 480 DONATED FOOD			
TOTAL ALL AGENCIES		**$557,052,871**	**$45,402,673**	**$732,383**	**$126,509,390**	**$20,650,006**	**$71,117,680**	**$292,640,739**
Aid for International Medicine	12-31-69	7,820	—	—	—	—	200	7,620
American Bureau for Medical Aid to China	12-31-69	517,122	—	—	—	—	188,844	328,278
American Dentists for Foreign Service	12-31-69	78,967	—	—	—	—	—	78,967
American Foundation for Overseas Blind	12-31-69	679,140	—	—	—	—	—	679,140
American Freedom from Hunger Foundation	12-31-69	956,898	—	—	—	—	—	956,898
American Friends Service Committee	9-30-69	7,342,984	9,720	—	—	188,296	259,140	6,885,828
American Fund for Czechoslovak Refugees	6-30-70	867,276	—	—	—	632,277	12,021	222,978
American Health Education for African Development (Ahead)[a/]	—	—	—	—	—	—	—	—
American Institute for Free Labor Development	12-31-69	6,093,057	—	—	—	5,719,348	—	373,709
American Jewish Joint Distribution Committee	12-31-69	24,098,300	235,600	—	745,100	244,200	19,500	22,853,900
American-Korean Foundation	6-30-70	2,976,607	59,830	516,192	—	—	1,281,417	1,121,168
American Middle East Rehabilitation[b/]	—	—	—	—	—	—	—	—
American Mission to Greeks	4-30-70	1,129,308	9,739	—	—	—	53,631	1,065,938
American National Committee to Aid Homeless Armenians	6-30-70	70,754	—	—	—	—	—	70,754
American ORT Federation	12-31-69	5,607,718	9,353	76,540	—	822,458	64,923	4,634,444
American Relief for Poland	12-31-69	218,532	21,646	—	181,181	—	—	15,705
Americans for Children's Relief[a/]	—	—	—	—	—	—	—	—
Andean Foundation[b/]	—	—	—	—	—	—	—	—
Assemblies of God-Foreign Service Committee	3-31-70	178,513	3,027	—	1,071	—	5,350	169,065
Boy's Towns of Italy	12-31-69	758,093	—	—	—	—	3,397	754,696
Catholic Relief Services - USCC	12-31-69	124,998,915	21,022,657	—	62,661,784	2,684,989	24,971,828	13,657,657
Children's Medical Relief International	10-31-69	1,216,169	—	—	—	1,208,157	—	8,012
Christian Children's Fund	6-30-70	15,429,026	—	—	—	148,594	—	15,280,432
Christian Reformed World Relief Committee	12-31-69	972,183	10,830	—	—	—	294,000	667,353
Church World Service	12-31-69	32,201,218	5,251,451	—	7,993,640	341,983	12,038,118	6,576,026
Community Development Foundation	6-30-70	1,876,398	—	—	—	671,264	—	1,205,134
Congregational Christian Service Committee	12-31-69	1,549,552	—	—	—	—	62,822	1,486,730
Cooperative for American Relief Everywhere (CARE)	6-30-70	89,659,583	16,433,656	—	51,040,540	1,625,594	5,639,204	14,920,589
Direct Relief Foundation	9-30-69	5,637,127	—	—	—	—	5,321,618	315,509
The Thomas A. Dooley Foundation	12-31-69	1,188,609	25,841	—	—	—	498,593	664,175

See footnotes at end of table.

SUMMARY STATEMENT OF DOLLAR INCOME

U.S. VOLUNTARY AGENCIES REGISTERED WITH THE ADVISORY COMMITTEE ON VOLUNTARY FOREIGN AID

By Voluntary Agency Fiscal Year

AGENCY - CONTINUED	VOLAG FY CLOSING	TOTAL	REGISTRATION BENEFITS			GOVERNMENT GRANTS AND CONTRACTS	DONATIONS OF COMMODITIES AND EQUIPMENT	PRIVATE CONTRIBUTIONS AND OTHER INCOME
			OVERSEAS FREIGHT PAID BY U.S. GOVT	U.S. GOVT EXCESS PROPERTY	PL 480 DONATED FOOD			
Foster Parents Plan	6-30-70	$11,231,301	364,080	$ ---	$ ---	$ ---	$242,539	$10,924,682
Foundation for the Peoples of the South Pacific	12-31-69	55,975	---	---	---	---	---	55,975
Friends of the United States of Latin America	12-31-69	1,917	---	---	---	---	---	1,917
HADASSAH	6-30-70	17,845,061	85,360	---	223,040	---	90,264	17,446,397
Heifer Project	12-31-69	875,622	17,604	---	---	85,193	344,836	427,989
Hiroshima Peace Center Associates[b/]	---	---	---	---	---	---	---	---
International Development Foundation	6-30-70	772,176	---	---	---	768,314	---	3,862
International Educational Development	12-31-69	137,230	28,956	32,505	---	---	9,900	65,869
International Eye Foundation	6-30-70	247,108	---	---	---	---	---	247,108
International Institute of Rural Reconstruction	12-31-69	1,016,482	1,733	---	---	14,222	---	1,000,527
International Rescue Committee	12-31-69	3,060,433	---	---	---	1,737,019	103,931	1,219,483
International Social Service	12-31-69	554,955	---	---	---	---	---	554,955
Iran	12-31-69	73,308	554	---	---	---	10,000	62,754
Koinonia Foundation	10-31-69	133,066	---	---	---	---	---	133,066
Laubach Literacy	5-30-70	542,274	---	---	---	---	---	542,274
Lutheran World Relief	12-31-69	10,144,754	913,710	---	2,432,740	---	3,557,513	3,240,791
Meals for Millions Foundation	12-31-69	604,549	---	---	---	---	155,433	449,116
Medical Assistance Programs	12-31-69	7,863,514	27,664	---	---	46,000	7,227,575	562,275
Mennonite Central Committee	11-30-69	4,796,780	163,000	---	---	2,400	2,536,003	2,095,377
Mizrachi Women's Organization of America	8-31-69	1,340,301	---	2,797	---	---	---	1,337,504
National Association of the Partners of the Alliance	6-30-70	399,504	---	---	---	398,749	---	755
Near East Foundation	6-30-70	1,617,827	---	---	---	573,133	---	1,044,694
Pan American Development Foundation	6-30-70	1,763,398	32,404	---	---	95,000	1,143,910	492,084
Pathfinder Fund[a/]	---	---	---	---	---	---	---	---
People-to People Health Foundation (Project HOPE)	6-30-70	7,600,878	10,561	---	---	1,300,000	798,713	5,491,604
Polish American Immigration and Relief Committee	12-31-69	63,908	---	---	---	25,000	---	38,908
Project Concern[b/]	---	---	---	---	---	---	---	---
Refuge des Petits	12-31-69	16,404	---	---	---	---	---	16,404
Dr. Jose P. Rizal & Gen. Douglas MacArthur Memorial Foundation	12-31-69	187,379	7,000	---	---	---	160,000	20,379
Romanian Welfare[b/]	---	---	---	---	---	---	---	---

See footnotes at end of table.

SUMMARY STATEMENT OF DOLLAR INCOME

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By Voluntary Agency Fiscal Year

AGENCY - CONTINUED	VOLAG FY CLOSING	TOTAL	REGISTRATION BENEFITS			GOVERNMENT GRANTS AND CONTRACTS	DONATIONS OF COMMODITIES AND EQUIPMENT	PRIVATE CONTRIBUTIONS AND OTHER INCOME
			OVERSEAS FREIGHT PAID BY U.S. GOVT	U.S. GOVT EXCESS PROPERTY	PL 480 DONATED FOOD			
Salvation Army - National Headquarters	9-30-69	$1,009,362	$ —	$ —	$ —	$50,000	$ —	$959,362
Save the Children Federation	6-30-70	5,511,635	—	—	—	—	—	5,511,635
Albert Schweitzer Fellowship	12-31-69	83,457	—	—	—	—	—	83,457
Seventh-Day Adventist Welfare Service	12-31-69	2,535,326	264,007	—	200,609	—	1,915,437	155,273
Stelios M. Stelson Foundation[b]	—	—	—	—	—	—	—	—
Summer Institute of Linguistics	12-31-69	5,346,994	14,834	—	—	66,552	36,558	5,229,050
Tolstoy Foundation	12-31-69	1,137,752	—	—	—	311,984	25,931	799,817
Unitarian Universalist Service Committee	3-31-70	1,001,095	—	—	—	89,511	23,111	888,473
United HIAS Service	12-31-69	2,993,629	—	—	—	468,191	—	2,525,438
United Israel Appeal	3-31-70	128,990,506	6,999	104,349	—	—	—	128,879,158
United Lithuanian Relief Fund of America	6-30-70	149,671	—	—	—	—	—	149,671
United States Foundation for International Scouting	12-31-69	321,562	—	—	—	—	—	321,562
United Ukranian American Relief Committee	12-31-69	293,014	—	—	—	—	230,000	63,014
VITA (Volunteers for International Technical Assistance)	12-31-69	470,369	—	—	—	317,990	—	152,379
Volunteer Border Relief	12-31-69	52,968	—	—	—	—	51,175	1,793
World Education[a]	—	—	—	—	—	—	—	—
World Neighbors	6-30-70	878,962	—	—	—	—	—	878,962
World Relief Commission, N.A.E.	12-31-69	2,205,190	433,205	—	1,029,685	10,307	199,377	541,616
World University Service	6-30-70	175,110	—	—	—	3,281	—	171,829
World Vision Relief Organization	12-31-69	1,829,888	239,093	—	—	—	1,549,868	40,927
YMCA - International Committee	12-31-69	2,530,579	559	—	—	—	—	2,530,020
International Division, National Board of the YWCA of the USA.	12-31-69	279,849	—	—	—	—	—	279,849

NOTE: These data represent the 12-month period of the fiscal year of the registered voluntary agencies and vary from agency to agency.

[a]/Recently registered; no report due.

[b]/No report submitted.

SOURCE OF DATE: Schedule C-100 - Statement of Income and Expenditures, prepared by registered Voluntary Agencies.

Mr. McEwen. Thank you very much.

COUNTRY PARTICIPATION IN VARIOUS REFUGEE PROGRAMS

Mr. Galifianakis. Has there been furnished for the record the number of countries that are in active participation in this program with the United States? Does the number stay the same or does it fluctuate?

I mean the participating countries.

Mr. Kellogg. In which particular program?

Mr. Galifianakis. Does it vary in each of the programs, the number of participating countries?

Mr. Kellogg. Yes.

For example, there will be one roster of countries that contributes and belongs to the UNHCR and there will be another group that contributes to ICEM. They are not always the same. There are a good many repetitions, but in certain instances, for reasons of their own the list won't be the same.

Mr. Galifianakis. Could we have the classifications with the corresponding countries in each program?

Mr. Kellogg. Yes, sir.

(Information follows:)

GOVERNMENTS CONTRIBUTING TO ICEM, UNHCR, ICRC, AND TO PROGRAMS FOR REFUGEES FROM EASTERN EUROPEAN COUNTRIES

	ICEM	UNHCR	ICRC	Refugees from Eastern European countries
Algeria		X		
Argentina	X	X		X
Australia	X	X	X	X
Austria	X	X	X	X
Bahamas		X		
Belgium	X	X	X	X
Bolivia	X			X
Botswana		X		
Brazil	X	X	X	X
Bulgaria			X	
Burma			X	
Burundi		X		
Cameroon		X	X	
Canada	X	X	X	X
Central African Republic		X	X	
Ceylon			X	
Chile	X		X	X
China, Republic of		X		
Colombia	X		X	X
Congo (Brazzaville)		X		
Congo (Kinshasa)			X	
Costa Rica	X			
Cyprus		X		
Denmark	X	X	X	X
Dominican Republic	X			
Dubai		X		
Ecuador	X	X	X	X
El Salvador	X			
Ethiopia		X		
Finland		X	X	
France		X	X	X
Gabon		X		
Gambia		X		
Germany, Federal Republic of	X	X	X	X
Ghana		X	X	
Greece	X	X	X	X
Holy See	X	X		
Honduras	X		X	
Iceland		X	X	
India		X	X	

GOVERNMENTS CONTRIBUTING TO ICEM, UNHCR, ICRC, AND TO PROGRAMS FOR REFUGEES FROM EASTERN EUROPEAN COUNTRIES—Continued

	ICEM	UNHCR	ICRC	Refugees from Eastern European countries
Indonesia			X	
Iran		X	X	
Iraq		X	X	
Ireland		X	X	
Israel	X	X	X	X
Italy	X	X	X	X
Ivory Coast		X	X	
Japan		X	X	
Jordan			X	
Kenya		X		
Khmer Republic		X		
Korea, Republic of (South)			X	
Kuwait		X		
Lebanon		X	X	X
Liberia		X		
Lybia		X		
Liechtenstein		X	X	
Luxembourg	X	X	X	X
Malagasy Republic		X		
Malawi		X	X	
Malaysia		X	X	
Malta	X	X	X	
Mauritius		X		
Mexico			X	
Monoco		X	X	
Morocco		X	X	
Nepal		X	X	
Netherlands	X	X	X	X
New Zealand	X	X	X	X
Nicaragua	X		X	
Nigeria		X	X	
Norway	X	X	X	X
Pakistan		X		
Panama	X	X		
Paraguay	X			
Peru	X	X		X
Philippines		X	X	
Poland			X	
Portugal		X	X	
San Marino			X	
Saudi Arabia		X		
Senegal		X		
Sierra Leone		X	X	
South Africa, Republic of	X		X	X
Southern Yemen		X		
Sovereign Order of Malta		X		
Spain	X		X	X
Sudan		X		
Sweden	X	X	X	X
Switzerland	X	X	X	X
Tanzania		X	X	
Thailand			X	
Togo		X		
Trinidad and Tobago		X	X	
Tunisia		X	X	
Turkey		X	X	
Uganda		X	X	
United Arab Republic		X	X	
United Kingdom		X	X	X
United States of America	X	X	X	X
Uruguay	X			X
Venezuela			X	X
Vietnam, Republic of (South)		X	X	
Yugoslavia		X	X	
Zambia		X		

Mr. Sobotka. Mr. Congressman, the Intergovernmental Committee for European Migration, and United Nations High Commissioner for Refugees, both happen to have 31 Government-members. In the case of ICEM each is an actual member of ICEM, and in the case of the High Commissioner 31 governments sit on the executive committee, but

they are not all the same governments, and, in addition, the High Commissioner gets contributions from some 30-odd additional governments.

ICEM is strictly a Western-oriented organization, whereas the High Commissioner has contributions from a range of members of the United Nations.

INTERNATIONAL COMMITTEE OF THE RED CROSS

Mr. GALIFIANAKIS. In the case of the International Committee of the Red Cross, I see an appropriation of $50,000. How many countries participate in this type of contribution to the International Committee?

Mr. SOBOTKA. I believe the figure is roughly 70 countries.

Mr. GALIFIANAKIS. And how does this amount compare with contributions made by the other countries?

Mr. KELLOGG. I can give you that, sir, I think. I don't have it by percentage, but, for example, as you already know, we have asked $50,000 as a government appropriation for the support of ICRC.

The German Federal Republic contributed $55,148 in 1970, which is next to largest, because Switzerland gives the greatest amount in 1970, $581,731.

Mr. GALIAFIANAKIS. Why don't you furnish all of that for the record?

Mr. KELLOGG. We will be glad to, sir.

(The information was supplied on p. 497.)

STAFF CONTACTS WITH REFUGEES

Mr. GALIAFIANAKIS. I have one other question. Do members of your staff come into actual contact with the refugees?

Mr. KELLOGG. Oh, yes, sir, very definitely, particularly out of our Geneva office. They are constantly in the field observing how the mechanism is working.

CLASSIFICATIONS OF REFUGEES

Mr. GALIAFIANAKIS. What goes into classifying one as a refugee as opposed to having some other status, immigration or otherwise?

Mr. KELLOGG. Well, that is a very good question, Mr. Congressman, and it illustrates how complicated it is. There are at least three definitions of a refugee. There is a general definition, which is any person who flees from his home or country to seek refuge elsewhere. There is a Convention definition of refugees. This is the definition as defined in the statute of the Office of the UNHCR. Then there is our own definition, which is still slightly different. When I say our own, I mean my office.

We break refugees down into two categories, one of which is an alien refugee, which is any person who has crossed an international frontier and is an alien within his present country of asylum, and then there is a nonalien refugee, which is any person who is displaced within his own country and who has the right of nationality in his present country of asylum.

Does that answer your question?

Mr. GALIFIANAKIS. Yes, it does. Do you apply all three of those standards?

Mr. SOBOTKA. As far as this particular program is concerned, we deal entirely with refugees who have left their own countries, primarily because of war or political, religious, or some other type of persecution, as opposed to a refugee from a disaster such as an earthquake, who may be in his own country. None of our funds would apply to that latter type of refugee. In other words, crossing a border for good reason is one of the criteria that we are involved in in all of the programs that we do here.

PROJECTED TROUBLE AREAS

Mr. GALIFIANAKIS. Do you forecast the particular troublesome area on the globe now that would create a special situation for your office?

EAST PAKISTAN

Mr. KELLOGG. Yes, sir. I believe there is one that looks particularly alarming and that is the East Pakistan situation. I think that is the one that may cause the greatest number of refugees.

Mr. GALIFIANAKIS. Do you do any preplanning in anticipation?

Mr. KELLOGG. It is underway now, sir.

Mr. GALIFIANAKIS. What other area would you contemplate might cause your office special concern?

RUSSIA—SOVIET JEWS

Mr. KELLOGG. The very trying situation in Russia with respect to Soviet Jews. As you undoubtedly are aware, and as has been in the public press, recently a great many more Russian Jews have been allowed to leave the Soviet country. Whether this will continue or not, we don't know, but this is another area that we are watching very, very carefully.

Mr. GALIFIANAKIS. I don't have any other questions.

Mr. Roybal?

Mr. ROYBAL. No questions.

Mr. GALIFIANAKIS. Mr. McEwen?

Mr. MCEWEN. No.

Mr. GALIFIANAKIS. Mrs. Reid?

PERCENT OF U.S. CONTRIBUTIONS COMPARED WITH OTHER COUNTRIES

Mrs. REID. What is the percentage of U.S. contributions to the resettlement of refugees as compared to that of other countries?

Mr. KELLOGG. It is very difficult accurately to assess the payments of other countries on behalf of refugees. In many countries, large expenditures for welfare and assistance to refugees are buried in programs for assistance and general welfare of the population as a whole. Furthermore, large amounts of funds are provided by State, county, and municipal government administrations and are not readily available. Several governments do not separate funds spent on regular immigrants from funds spent on refugees, and several governments spend large amounts on groups of refugees for whom the U.S. Government has no expense. Finally for reasons of their own some countries do not wish to divulge amounts spent for this purpose.

However, our best estimate is that U.S. Government contributions to resettlement of refugees may be about 12½ percent of that of all other countries.

TRAINING OF UNSKILLED REFUGEES

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

Mr. KELLOGG. The U.S. refugee program constantly reviews the need for vocational training projects for unskilled refugees and periodically implements such projects whenever it is determined that they would materially help a significant number of refugees to meet the resettlement criteria of a given country. The USRP, in cooperation with ICEM and the UNHCR also provides language training programs for refugees not only to enhance their resettlement potential but also to accelerate the process of their becoming fully integrated in their new homelands.

ICRC PRISONERS OF WAR

Mrs. REID. What steps have been taken by the International Red Cross during the past year in behalf of U.S. prisoners of war in North Vietnam?

Mr. KELLOGG. The International Committee of the Red Cross (ICRC) during the past year continued to make approaches to North Vietnam, the "Provisional Revolutionary Government," and to Communist authorities in Laos, on behalf of U.S. prisoners of war. North Vietnam rebuffed the ICRC's approaches, holding to its position that the American prisoners it holds are not covered by the Geneva prisoner-of-war convention. The United States and the ICRC have formally rejected this North Vietnamese contention. The ICRC made private approaches to the PRG in hopes of obtaining a list of U.S. prisoners, without success. The ICRC delegate in Laos met a number of times with the representative in Vientiane of the Lao Patriot Front (Pathet Lao). He transmitted a list of U.S. missing personnel to the Lao Patriotic Front each month and has forwarded many letters. However, the Lao Communist authorities have not responded to these appeals for information. The ICRC also continues to forward mail to our prisoners in North Vietnam, despite the fact that Communist authorities say they will only accept mail sent directly by families or through the "Committee of Liaison," the antiwar group in New York that has forwarded and received prisoner-of-war mail. It should also be noted that the ICRC is sponsoring a series of conferences on international humanitarian law in armed conflicts, which we hope will help secure better enforcement and application of the Geneva prisoner-of-war convention.

BIAFRAN REFUGEE RESETTLEMENT

Mrs. REID. Have all the people disrupted by the Biafran war been resettled?

To what extent were we involved there through the United Nations Commissioner?

Mr. KELLOGG. We understand that most of the people whose lives were disrupted, or who were displaced, or fled, during the course of the civil war in Nigeria which ended 14 months ago have been resettled. The Nigerian authorities show very little current concern for what people's sympathies may have been at the time of the secession, and in fact under the amnesty proclaimed at the end of the war thousands of former "Biafran" civil servants, police and even soldiers have been reincorporated into their respective services. There have been no mass arrests, trials, mass imprisonments or executions.

As stated by President Nixon in his report to the Congress on foreign policy on February 25, 1971:

> The United States views with admiration the humane and statesmanlike policy of reconciliation which Nigeria has adopted.

The United Nations High Commissioner for Refugees was not initially involved in the civil war because his mandate does not extend to refugee situations within the boundaries of a nation. Since the war's end, however, the UNHCR, together with ICEM, have furnished important assistance in the repatriation of persons, particularly children, who were accorded refuge from the conflict in nearby West African countries.

COMMUNIST CHINA REFUGEES TO HONG KONG AND MACAO

Mrs. REID. What is the approximate number of refugees now coming out of Communist China to Hong Kong and Macao?

Mr. KELLOGG. The Hong Kong Government does not maintain statistics on the numbers of refugees entering the colony. However, one of the best indicators of the refugee flow is the registrations of persons who have entered Hong Kong illegally. In 1970 there were almost 9,000 such registrations, an increase of about 1,500 over 1969. We also have received an independent estimate that about 7,500 refugees entered Hong Kong in 1970.

Because of controls on both sides of the border, a negligible number of refugees are able to enter Macao from Communist China.

CONCLUSION

Mr. GALIFIANAKIS. We would like to reserve the opportunity for those members who were not present, within a reasonable time, say, 24 hours, to submit special questions that might arise between now and then to be submitted to you. We have the misfortune of two subcommittees meeting at the same time, and I apologize for my own tardiness.

I would like to express the gratitude of the chairman and the committee; and since this is your very first opportunity as a witness, I think you have acquitted yourself very well on a very sensitive subject matter, and we thank you and your associate very much.

Mr. KELLOGG. We appreciate that.

Mr. GALAFIANAKIS. We will adjourn until 1 p.m. tomorrow.

60-208 O—71—pt. 1——33

TUESDAY, APRIL 6, 1971.

EXPORT-IMPORT BANK OF THE UNITED STATES

WITNESSES

HENRY KEARNS, PRESIDENT AND CHAIRMAN OF THE BOARD OF DIRECTORS
WALTER C. SAUER, FIRST VICE PRESIDENT AND VICE CHAIRMAN OF THE BOARD OF DIRECTORS
DON BOSTWICK, EXECUTIVE VICE PRESIDENT
JOHN E. CORETTE III, GENERAL COUNSEL
J. PATRICK DUGAN, SENIOR VICE PRESIDENT AND TREASURER-CONTROLLER
JAMES K. HESS, CHIEF, BUDGET AUDIT SECTION
NANCY S. PIGMAN, OFFICE OF THE GENERAL COUNSEL

LIMITATION ON PROGRAM ACTIVITY

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Program by activities:			
Equipment and services loans:			
Authorizations	1,549,588	2,137,450	2,445,000
Participations and cancellations	−35,453	−80,000	−90,000
Net authorizations	1,514,135	2,057,450	2,355,000
All other, excluding administrative expenses:			
Authorizations	1,116,390	1,243,173	1,379,411
Participations, cancellations, and expirations	−79,675	−97,059	−101,471
Net authorizations	1,036,715	1,146,114	1,277,940
Total authorizations other than for administrative expenses	2,550,850	3,203,564	3,632,940
Financing: Uncommitted balance lapsing	876,563	871,919	.....
Limitation	3,427,413	4,075,483	3,632,940

LIMITATION ON ADMINISTRATIVE EXPENSES

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Program by activities:			
Administration:			
(a) Loan program	3,951	4,972	5,067
(b) Guarantee and insurance program	1,814	1,976	2,632
(c) Garage management	32	18	20
Total obligations	5,797	6,966	7,719
Financing:			
Obligations not subject to limitations	−32	−18	−20
Unobligated balance lapsing	183	.....	.....
Limitation	5,948	6,613	7,699
Proposed supplemental for civilian Pay Act increases	.....	335	.....

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Personnel compensation:			
Permanent positions	4,313	5,246	5,652
Positions other than permanent	12	30	22
Other personnel compensation: Overtime and holiday pay	48	29	49
Special personal service payments:			
Reimbursable detail	43	57	59
Excess of annual leave earned over leave taken	94	73	108
Total personnel compensation	4,510	5,435	5,890
Personnel benefits: Civilian employees	324	432	454
Travel and transportation of persons	140	207	250
Transportation of things	3	5	6
Rent, communications, and utilities	571	592	773
Printing and reproduction	38	52	53
Other services	150	179	211
Supplies and materials	61	64	82
Accrued administrative expenses included in schedule for fund as a whole. (See separate schedule.)	−5,797	−6,966	−7,719
Total accrued administrative expenses—costs			

PERSONNEL SUMMARY

Total number of permanent positions	353	398	423
Full-time equivalent of other positions	2	2	2
Average number of all employees	337	365	386
Average GS grade	8.9	9.3	9.3
Average GS salary	$13,244	$13,738	$13,762
Average salary of ungraded positions	$6,908	$7,000	$7,269

Note: After the budget was submitted, H. Doc. 92-93 was transmitted to Congress containing $373,000 in increased pay costs for fiscal year 1972.

PUBLIC ENTERPRISE FUNDS

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Program by activities:			
Loan program:			
Operating costs, funded:			
Interest on borrowings	66,567	104,794	168,567
Discount on short-term notes	4,325		
Interest on participation certificates and debentures	119,582	97,748	52,696
Interest on advances under letters of credit	794	1,000	1,000
Administrative expenses subject to limitation	3,951	4,972	5,067
Other financial expense	12,174	13,988	12,535
Other expenses	186	76	79
Total operating costs, funded	207,579	222,578	239,944
Change in selected resources [1]	−5,533	−959	−531
Total obligations (operations program)	202,046	221,619	239,431
Capital outlay, funded:			
Equipment and services loans	1,095,004	1,237,509	1,294,062
Commodity loans	67,365	80,000	81,600
Discount loans	146,450	395,200	425,900
Special foreign trade loans		25,000	50,000
Repurchase of loans	260,318		
Total capital outlay, funded	1,569,137	1,737,709	1,851,562
Change in selected resources [1]	−124,073	743,089	603,708
Adjustments in selected resources (loan obligations)	304,533	421,730	529,319
Total obligations (capital outlay)	1,749,597	2,902,528	2,984,589
Total obligations (loan program)	1,951,643	3,124,147	3,224,020
Other: Purchase of equipment—Capital outlay	69	100	100

See footnote at end of table.

PUBLIC ENTERPRISE FUNDS—Continued

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)—Continued

	1970 actual	1971 estimate	1972 estimate
Guarantee and insurance program:			
Operating costs, funded:			
Administrative expenses subject to limitation	1,814	1,976	2,632
Nonadministrative expenses	3	21	26
Total operating costs, funded	1,817	1,997	2,658
Change in selected resources:			
Guarantees	376,644	693,437	894,098
Short-term insurance	375,000		300,000
Medium-term insurance	263,288	249,982	177,730
Subtotal	1,014,932	943,419	1,371,828
Reduction for fractional reserve basis	−762,701	−707,773	−1,028,871
Total change in selected resources	252,231	235,646	342,957
Total obligations (guarantee and insurance program)	254,048	237,643	345,615
Total obligations	2,205,760	3,361,890	3,569,735
Financing:			
Receipts and reimbursements from:			
Non-Federal source	−32	−18	−20
Loan program:			
Loans repaid	−870,581	−1,070,203	−1,053,082
Sale of loans with recourse	−325,101	−420,000	−400,000
Sale of loans without recourse	−81,139		
Interest revenue from loans	−317,130	−331,989	−353,790
Guarantee and insurance program: Fees and premiums, net	−3,003	−5,651	−6,251
Recovery of prior-year obligations, loan program	−304,536	−421,730	−529,319
Unobligated balance available, start of year: Authority to spend public debt receipts	−2,470,375	−1,536,838	
Unobligated balance available, start of year: Authority to spend agency debt receipts	−98,434	−677,734	−1,052,273
Unobligated balance available, end of year: Authority to spend public debt receipts	1,536,838		
Unobligated balance available, end of year: Authority to spend agency debt receipts	677,734	1,052,273	
Capital transfer to general fund	50,000	50,000	50,000
Budget authority (permanent, indefinite authority to spend agency debt receipts)			225,000
Relation of obligations to outlays:			
Obligations incurred, net	304,238	1,112,299	1,227,273
Obligated balance, start of year:			
Authority to spend public debt receipts	2,809,437	2,876,721	3,775,143
Authority to spend agency debt receipts			105,877
Fund balance	8,519	26,413	6,413
Obligated balance, end of year;			
Authority to spend public debt receipts	−2,876,721	−3,775,143	−2,831,015
Authority to spend agency debt receipts		−105,877	−1,987,278
Fund balance	−26,413	−6,413	−6,413
Outlays	219,060	128,000	290,000

[1] Balances of selected resources are identified on the statement of financial condition.

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Other services	158	79	85
Equipment	69	100	100
Investments and loans	1,749,597	2,902,528	2,984,589
Interest on portfolio certificates, etc	203,441	217,530	234,798
Administrative expenses. (See separate schedule.)	5,797	6,966	7,719
Total costs, funded	1,959,062	3,127,203	3,227,291
Change in selected resources	246,698	234,687	342,444
Total obligations	2,205,760	3,361,890	3,569,735

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 1972 spending program, as well as a limitation on their administrative expenses.

We have as the chief witness the Honorable Henry Kearns, president and chairman of the board of the bank, and his staff.

Before actually getting into the statement and detailed questions, I want to say for the record that this is a splendid organization. It is one that is operated on a business basis.

This is one of the departments or agencies of Government I think we all are proud of because it is one that finances our exports and, while doing so, earns a profit not only for the manufacturer of the commodity sold, but also making it possible for the manufacturer to pay huge sums into the Internal Revenue Service. This is one organization that has never had a concessionary interest formula. I think the minimum has always been 6 percent and the maximum has been 6 percent. So I am proud of this organization. I do not think they should be turned loose to run wild and I do not think they will do so as long as we have Mr. Kearns. So with that said, we will abide by the rules of the committee, each member will consume 5 minutes with questions and answers, and then we will go back to each member and let him consume all the time he needs to review the program.

Do you have a statement you would like to make to the committee?

Mr. KEARNS. I would like to, with your permission.

GENERAL STATEMENT

Mr. Chairman, members of the committee, it is a pleasure for me to appear before you to discuss the Export-Import Bank's fiscal year 1972 budget request and the activities of the Bank during the past year. This is my third appearance before this committee since becoming Chairman of the Export-Import Bank in March 1969.

Last year I described some of the problems faced by U.S. exporters competing in the international marketplace. I also outlined some of the changes which had been made to the Bank's programs to enable our exporters to more effectively meet the challenge of achieving an improved U.S. balance-of-payments position through increased U.S. exports. Today, I would like to share with you the results in fiscal year 1970 of these changes and our expectations of the coming fiscal year.

FISCAL YEAR 1970

Fiscal year 1970, was a year of expansion at Eximbank. Nearly $4 billion of loans, guarantees, and insurance were authorized during the year in support of $5.5 billion of U.S. export sales. This was an increase of 90 percent over the amount of U.S. exports supported by fiscal year 1969 authorizations, and was the highest level in the Bank's history.

Fiscal year 1970, authorizations for loans increased 70 percent over the previous year and included $1.5 billion for equipment and services loans, $75 million for the Bank's annual cotton credit to Japan, and $584.2 million in discount loans.

Guarantee and insurance authorizations also increased. Gross guarantee and insurance authorizations in fiscal year 1970, were $1.8 billion, or an increase of 44 percent over the fiscal year 1969 levels. Much of this increase was due to the policy of this administration of requiring private financing participation in all Eximbank credits, with Eximbank willing to issue a financial guarantee to cover the private financing portion of the total credit when appropriate.

The net earnings of the Bank increased from $104 million in fiscal year 1969 to $110.7 million in fiscal year 1970, a rise of 6.4 percent. From these earnings, the Bank paid a $50 million dividend to the Treasury, an amount equal to 5 percent on the $1 billion of capital stock held by the Treasury. The remaining $60.7 million was added to the Bank's "Retained Income Reserve."

Fiscal year 1970, authorizations under the "Export Expansion Facility" consisted of $93.2 million in loans and $156.9 million in medium-term guarantees and insurance. Total charges against the $500 million EEF limitation were $168.6 million at June 30, 1970.

The loss experience of the Bank continued to be negligible. No loans were written off during fiscal year 1970 and claims paid, net of recoveries, were slightly under $16,000. The Bank's loss ratio of writeoffs to disbursements since the inception of the Bank is only two one-hundredths of 1 percent.

The activities of the Bank resulted in a direct contribution to the U.S. balance of payments of $960 million in fiscal year 1970. Adding to this the indirect contribution from cash payments on guaranteed and insured shipments, and repayments to exporters and commercial banks of credits guaranteed or insured by the Bank raised the total contribution from Eximbank's programs to our Nation's balance of payments in fiscal year 1970 to about $1.9 billion.

As part of our continuing evaluation of the needs of U.S. exporters and Eximbank's effectiveness in meeting these needs, several of the Bank's existing programs have been further revised and new ones have been developed.

The relending credit program has been revised to make it more responsive to the needs of U.S. exporters both in dealing with small and medium-sized business abroad and in introducing new products into a potentially lucrative foreign market. This program should lead to increased U.S. exports in areas where additional export markets for U.S. goods and services exist.

A new program, the Cooperative Financing Facility, has been developed to help solve on a continuing basis some of the financing problems encountered by U.S. exporters in selling to small and medium-sized business and industry overseas. This program provides a flexible and responsive mechanism for such overseas firms to use in financing their purchase of U.S. goods and services.

We have developed several new insurance policies in cooperation with the Foreign Credit Insurance Association. These new policies are designed to help U.S. exporters expand their export sales by removing certain of the risks inherent in international transactions. The new master policy, for example, will cover political risks only or both political and commercial risks for all of a U.S. exporter's transactions made on credit terms up to 5 years. The master policy includes a deductible feature, minimum paper work requirements, and a low average premium rate.

The Bank is cooperating with FCIA also in establishing branch offices in several cities across the United States. This will make FCIA's facilities more accessible to U.S. exporters.

NEW LEGISLATION

Shortly after I became the Chairman of the Export-Import Bank, it became apparent that the then recently adopted unified budget concept was preventing the Bank from adequately fulfilling its congressional mandate to assist U.S. exports. Although neither this committee, its counterpart in the Senate, or the Congress as a whole has reduced Eximbank's authorization requests, the Bank has been unable to develop new programs to deal with the problems faced by U.S. exporters in the short-term financing area, to finance its operations in a completely rational manner, or to incorporate into existing programs the necessary flexibility to cope adequately with the constantly changing conditions in the financing of international trade.

The root of the problem lies in the method of calculating the Bank's impact on the U.S. Government's budget surplus or deficit. Under the unified budget, Eximbank's disbursements for loans, interest expense, claims, and administrative expense are counted as budget disbursements. Repayments of loans, interest and fees collected, and asset sales are counted as receipts. Borrowings to fund the Bank's operations, however, are not counted as budget receipts. The difference between the budget outlays and the budget receipts is the net impact Eximbank has on the overall surplus or deficit of the U.S. Government.

The Bank is limited by the Office of Management and Budget in the amount of its budget impact, or net outlays, for a given fiscal year. As a result, programs, such as a short-term discount program, which have an immediate impact on the budget in excess of the amount considered tolerable by the Office of Management and Budget cannot be inaugurated, and the flexibility of existing programs is greatly reduced.

Various alternative solutions to this problem were discussed and, after much study and debate, it was decided that the only viable solution would be to obtain the concurrence of Congress in exempting Eximbank's activities from the unified budget without changing existing congressional or executive control over the Bank's activities. Legislation to accomplish this has been introduced into the House and Senate. Hearings on this legislation were held by the Committee on Banking, Housing and Urban Affairs, which subsequently reported the bill to the Senate. The Senate, on April 5th, passed this necessary legislation. The House Committee on Banking and Currency will hold hearings on similar legislation in the near future.

If enacted, the legislation will provide Eximbank with the flexibility and continuity necessary to carry out its operations in an efficient and effective manner. The Bank will still be required to submit its budget for program activities and administrative expenses through the Office of Management and Budget to the Congress and your committee for approval. Thus, all congressional and executive controls over the Bank's activities which currently exist will remain unchanged.

In addition to exempting the Bank's receipts and disbursements from the unified budget, the legislation also provides for increasing the Bank's $13.5 billion loan, guarantee and insurance authority to

$20 billion, increasing the $3.5 billion guarantee and insurance authority to $10 billion, and extending the life of the Bank through June 30, 1976.

The increases to the Bank's statutory loan, guarantee and insurance authorities are necessary to enable the Bank to continue to provide adequate levels of support for U.S. exports. Budget estimates for fiscal year 1971 indicate that the charges against the $3.5 billion limitation will be in excess of $3.4 billion at June 30, 1971. It is evident, therefore, that the Bank needs an immediate increase in its fractional reserve limitation in order to continue the guarantee and insurance programs at the levels proposed for fiscal year 1972 and to sustain this activity in future years.

Budget estimates for fiscal year 1972 for all of the Bank's programs indicate clearly that the Bank will more than exceed its present overall commitment authority of $13.5 billion prior to the time its present life expires on June 30, 1973. Projected levels of activity for the present fiscal year will result in charges against the commitment authority of slightly over $11.2 billion at June 30, 1971. The fiscal year 1972 budget estimates that these charges will increase to over $13 billion at June 30, 1972, leaving an unused authority of less than $500 million. Based on these general levels of activity alone, it is clear that an increase in the commitment authority is required at this time to permit the Bank to plan its operations and continue its programs in an orderly and uninterrupted manner. The Bank believes that the $6.5 billion increase proposed will provide it with the commitment authority which will be needed over the next several years if Eximbank is to meet the demonstrated needs of the U.S. exporting community.

FISCAL YEAR 1972

Although fiscal year 1970 activity showed significant increases over fiscal year 1969 levels and fiscal year 1971 shows continuing increases of more than 40 percent over fiscal year 1970, we believe that even higher levels of Eximbank activity will be necessary in the future to do an adequate job of assisting the U.S. exporting community to increase exports in order to help the U.S. balance of payments position. Therefore, the fiscal year 1972 budget requests

$2.5 billion in net regular loan authorizations
$575 million in net discount loan authorizations
$2.7 billion in guarantee and insurance authorizations
$7.7 million in administrative expenses.

The $2.5 billion of regular loan authorizations includes $2.4 billion for equipment and services loans, $75 million for commodity loans, and a $50 million contingency for special foreign trade loans.

The revised Discount Program which has been very effective in assuring the U.S. exporting community of a continuing availability of funds for export financing during the recent period of tight liquidity, is budgeted for $575 million in 1972.

Guarantee and insurance authorizations are budgeted to be $2.7 billion in fiscal year 1972, an increase of $400 million over the fiscal year 1971 budgeted levels. We anticipate that the increased emphasis being placed on private participation in Eximbank's financing of U.S. exports, the recent signing of the loan and guarantee agreement with the Private Export Funding Corporation (PEFCO), and new types

of export insurance policies will result in increased guarantee and insurance activity.

These activity levels total over $3.6 billion in new program activity, an increase of about $400 million from the $3.2 billion budgeted for fiscal year 1971.

Administrative expenses are estimated to be $7.7 million. These expenses will continue to be paid out of the net earnings of the Bank, and thus they involve no appropriated funds.

Because of the increase in all of the Bank's programs, the Bank has requested a modest increase in staff. Although increased efficiencies will permit absorption of some of the increase in activity, expanding workloads will more than offset the increased operating efficiencies, thus requiring a small increase in personnel. The budgeted end-of-year staffing level for fiscal year 1972 is 395, an increase of 15 from the 380 budgeted for the end of fiscal year 1971.

The fiscal year 1972 request also provides for increases in travel due to the continued emphasis being placed on monitoring the Bank's loans, and on giving seminars and speeches to inform the U.S. exporting community of Eximbank's facilities available to help them in their export sales efforts.

Other expenses, such as rent, communications and utilities are expected to increase slightly due to inflation and the Bank's increased activities and staff.

We believe that these activity levels are the minimum necessary for an adequate program to support U.S. exports; much more could and should be done and will be possible with the enactment of the new legislation I mentioned earlier.

In conclusion, Mr. Chairman, may I say that it has been my privilege to have enjoyed a very pleasant relationship with you and your committee and I hope to continue this relationship in the future. With the support that Eximbank has enjoyed from you and the Congress, the Bank has been able to offer significant assistance to the U.S. exporting community which has resulted in increased numbers of jobs for Americans in every State of the Union and a significant contribution toward improving the U.S. balance of payments.

We believe that with the continued cooperation and approval of the Congress the Bank will be able to expand its support of U.S. exports into areas of great need and assist in further increasing U.S. exports, thus helping to provide even more jobs for Americans and a more favorable balance of payments for our Nation.

Mr. PASSMAN. At this time I yield to Mr. Shriver.

BANK SEMINAR IN WICHITA

Mr. SHRIVER. Thank you.

Mr. Kearns, before I ask a few questions, I would like to thank you and other officers of the Bank, especially Charles E. Shearer, Jr., senior vice president for planning and export expansion, for the fine cooperation received last fall in Wichita, Kans. Along with the Wichita Chamber of Commerce, I co-sponsored an export sales seminar, such as you mentioned in your statement. The initial results have been very favorable, and there is now discussion that this should be made an annual event.

The Wichita area has been hardhit by the slowdown in the aerospace industry, as I indicated, so this extra effort on the part of the Bank is certainly appreciated.

Immediately after the Easter recess, this subcommittee will hold hearings on the Overseas Private Investment Corp. Would you discuss briefly the differences between your programs of export expansion and the programs of OPIC?

DIFFERENCES BETWEEN EXIMBANK AND OVERSEAS PRIVATE INVESTMENT CORPORATION

Mr. KEARNS. I do not believe there are any conflicts whatever, although OPIC is just getting underway. OPIC activity will be devoted primarily toward the investment of American capital in various enterprises abroad. In those areas where some governmental assistance is required in order to provide reasonable assurance that the investment will be returned with earnings.

Eximbank's activities are related entirely to the sale of U.S. goods and services. They do not relate to investments as such, although from time to time in putting together a transaction where U.S. equipment, supplies, material, or technology are a part of the transaction we could finance, or participate in the financing of, that equipment, but it would be only incidental to the actual investment.

Now, in the former AID investment guarantee section, there were some transactions where they insured the investment and Eximbank financed the equipment.

I would presume, as OPIC gets underway, that this same pattern would prevail, but the operations are entirely separate and for different purposes.

BANK SUPPORT OF WHEAT AND LIVESTOCK EXPORT SALES

Mr. SHRIVER. Has the Bank increased its activities relating to the export of wheat and livestock products over the past year?

Mr. KEARNS. To a minimum degree.

Most of those transactions move under what we call short term, under 1-year financing. We have not been able, because of the restraints under the unified budget, to get into a short-term discount program which we feel is essential to regain some of the short-term markets that the United States has lost.

We have been supporting some wheat and livestock export transactions. My colleagues can give you the total amount.

Mr. SHRIVER. Why not put it in the record.

(The information follows:)

EXIMBANK SUPPORT OF FARM COMMODITIES AND LIVESTOCK EXPORTS DURING FISCAL YEAR 1970

During the fiscal year 1970, Eximbank authorized a total of $96,035,468 in discount loans to commercial banks in support of export sales of the following farm commodities:

Agricultural authorization fiscal year 1970 (feed grains and soybeans)

Corn	$16,071,137
Wheat	3,200,000
Varied Grains (corn, wheat, barley, grain sorgum) and Soybeans	76,764,331
Total	96,035,468

Under the Bank's medium-term commercial bank guarantee program, two cattle export transactions with a contract value of $213,337 were supported during fiscal year 1970.

Under the Eximbank/FCIA insurance program, livestock exports to Mexico valued at $70,000 were supported during fiscal year 1970.

POTENTIAL INCREASE IN EXPORTS

Mr. SHRIVER. Also, whether or not you anticipate any expansion in this area.

Mr. KEARNS. If we can obtain the budget flexibility, we certainly would expect to increase our support of agricultural commodity exports. We are focusing more and more attention on agricultural exports and, in fact, we now have a man with an extensive agricultural export background as an officer of the Bank. The answer for the future, again, depends on our ability to fund a program which will provide effective support when it is needed for this type of export. If we are provided with the resources to fund an effective short-term finance program, in our judgment it could add a very significant amount to the total exports of the country. This is the area in which we have lost the most ground in total international trade. We are not very competitive in this area today.

POTENTIAL INCREASE IN LOSSES FROM EXPANDED PROGRAM

Mr. SHRIVER. I am impressed and I think many are with the substantial increases in your activities and the resulting export sales over the past couple of years. To what extent do you anticipate a higher loss ratio than your extraordinarily low one in the past due to the change in the expansion program?

Mr. KEARNS. I do not see any real reason why there should be any significant change just because we have an increased volume. You do have some increased exposure. However, Eximbank has a tremendously important factor in its collections favor, and that is that a company or a country that defaults on Eximbank obligations finds it very difficult to finance any place, particularly in the United States. So this helps us with our collection.

We do have some potential losses in some of the countries. However, we believe that in time those debts would be repaid, although there may be a period in which we could experience some difficulty.

These conditions are constantly changing, but the actual defaults are almost at a minimum.

Our losses last year in all our programs of loans, insurance, and guarantees were less than $22,000. We will submit the exact amount for the record.

(The information follows:)

LOSSES PAID DURING FISCAL YEAR 1970 IN THE GUARANTEE AND INSURANCE PROGRAM

	Paid	Recovered	Net loss
Guarantees	$117,370	$157,361	($39,991)
Insurance (net)	(1)	(1)	61,594
Net loss during fiscal year 1970			21,603

[1] Not available.

Note: There were no losses paid under the direct loan program.

Mr. SHRIVER. Off the record.
(Discussion off the record).

COOPERATIVE FINANCING FACILITY PROGRAM

Mr. SHRIVER. On page 4 of your statement, you discussed the new "Cooperative Financing Facility." You said it is intended to concentrate on the problems of U.S. exporters selling to small- and medium-sized business and industry overseas. Would you describe that program further, and tell us if it will benefit in any specific ways small- and medium-sized businesses in our country?

Mr. KEARNS. I would be glad to because I think this is one of our most important and promising programs. A major goal of the cooperative financing facility program is to make available in the marketplace a portion of Eximbank's financial resources to assist small and medium-size business and industry, on a continuing basis. The program provides a flexible and responsive mechanism for such firms to use in financing their purchases of goods and services from the United States. It provides the same type of assistance to small- and medium-size sellers in the United States.

It works in this way. Eximbank enters into agreements with non-U.S. financial institutions, either branches of U.S. banks abroad or foreign financial institutions, to extend to them a line of credit up to a specific amount, and available to them through a definite period of time, for the joint financing with them of exports of U.S. goods and services. The Eximbank funds can be used for up to 50 percent of the financed portion of any export transaction, with the cooperating financial institution providing the remaining 50 percent of the financing after a 10-percent downpayment by the foreign buyer. This, in effect, brings Eximbank's resources right into the marketplace where the export sale is being negotiated between buyer and seller and banker. It encourages the foreign financial institutions to promote U.S. sales because they benefit from participating in the transaction by having their lending resources doubled; Eximbank benefits through using only 50 percent of its resources and having, in effect, a network of sales agents abroad; and the U.S. supplier benefits by obtaining the business and in most cases entering new markets which could offer substantial future sales.

The cooperative financing facility program is intended principally for use in financing medium-term transactions; that is, those requiring repayment terms of 1 to 5 years, although longer repayment may be considered in appropriate cases. This type of sale, of course, is particularly applicable to small and medium-size U.S. exporters. It is beneficial to both small and medium-size foreign buyers and American sellers in the following way. When a buyer and seller are negotiating a transaction and they need financing, they generally go first to their own banks. In the case of the buyer, if his bank is cooperating with Eximbank under this program, the funds are readily and easily available, presuming the transaction is sound, of course. The foreign cooperating institution makes this determination, which is also of assistance to Eximbank in cutting down paperwork and time. In the case of the American seller, for example, he can go into his U.S. bank who will then advise whether any of their foreign branches, subsidiaries, or correspondent banks are participating with Eximbank in the program or, we hope, what other foreign branches of U.S. banks have the program available. This information can be conveyed

immediately to the seller's agent in the foreign country, who can then go with the buyer right to where the funds are for the financing required to consummate the transaction.

We are making great efforts to disseminate as widely as possible, through U.S. banks, associations, and businesses, information on where we are operating these cooperative financing plans and how they work. I think this is the best way to get the word to the smaller businesses and convince them that exporting can be advantageous to them at minimum effort, without a lot of redtape, and with financing available at a rate which can be competitive with foreign producers. We believe that this program, because it puts the funds right on the spot where they are needed, could add very substantially to the U.S. export effort for all exporters, but particularly for those who until now have not taken full advantage of the assistance which the Bank can provide.

FCIA BRANCH OFFICES

Mr. SHRIVER. Where are the branch offices of the Foreign Credit Insurance Association to be located?

Mr. KEARNS. The Foreign Credit Insurance Agency, which is headquartered in New York City, has existing branch offices in Cleveland, Chicago, San Francisco, and Los Angeles. There is also a representative office located in Houston, which is to be converted into a branch office in the near future. Studies concerning locations of manufacturers and exporters have indicated that additional FCIA branch offices could profitably be located in the following sections of the country: Northeast, Southeast, mid-Atlantic coast, West Central, North Central, and Northwest. Specific sites for the branch offices have not as yet been determined.

ROLE OF APPROPRIATIONS COMMITTEE UNDER PROPOSED LEGISLATION

Mr. SHRIVER. It is not too clear as to what the role of this subcommittee would be under the proposed legislation which would exempt the Bank's activities from the unified budget. Would you comment on this further?

Also, describe in greater detail the flexibility and continuity you say this legislation will provide the Bank.

Mr. KEARNS. First and foremost, the role of this subcommittee will not change in any way if the legislation to exclude the Bank's activities from the overall U.S. Government budget is enacted. In fact, none of the present congressional controls on Eximbank will change or be diminished in any measure.

As you know, congressional control over the levels of Eximbank activities occurs in two legislative stages. First, this control is exercised by Congress placing certain overall ceilings on the Bank's activities during its 5-year life periods, which are recommended initially by the Banking Committees of the House and the Senate, in the Bank's enabling legislation, the Export-Import Bank Act. Second, which is what we are talking about here today, certain annual authorization and expense ceilings, as recommended each year by the Appropriations Committees of the House and Senate, are contained in one title of the annual Foreign Assistance and Related Agencies Appropriations Acts. Neither of these congressional review and control procedures would be changed by enactment of the pending legislation.

The legislation proposes only that Eximbank's receipts and disbursements in any fiscal year not be calculated into the overall Federal bud-

get totals of receipts and expenditures as presently determined under the unified budget accounting concept nor, as a result, be included in the annual expenditure ceilings placed on the budget. Eximbank will still be required under the Government Corporation Control Act to submit an annual budget to the President, through the Office of Management and Budget, for transmittal by the President to the Congress. In fact, to be sure that there is no misunderstanding on this point, the pending legislation includes a provision specifically requiring the Bank to follow this procedure.

In addition, the legislation in no way changes the periodic reviews which the Bank has before the Banking Committees when we request the Congress to increase our commitment authority and extend the life of the Bank.

Our problem in being included in the budget totals lies in the method of calculating the Bank's impact on the U.S. Government's budget surplus or deficit, as defined under the unified budget concept. By this I mean that within any fiscal year Eximbank's disbursements on loans, interest expense, claims, and administrative expenses are accounted for as budget disbursements, even though in the case of the loans they will be repaid in U.S. dollars with interest. Repayment on the loans when received, plus interest and fees collected, and receipts from our asset sales are accounted for as receipts. The difference within any fiscal year between our so-called budget disbursements and our budget receipts is the net impact which Eximbank has on the overall Federal budget surplus or deficit. A further problem complicating the calculation of this impact results from the fact that under the unified budget concept, the Bank's borrowings which it normally uses to finance its loan disbursements do not count as budget receipts, and therefore cannot be used to offset disbursements.

As I am sure you understand, in any normal banking operation when your business is increasing, disbursements necessarily exceed receipts. This has been true of Eximbank, and therefore our activities have resulted in a net budget outlay under the unified budget calculations. We, of course, are not losing money. In fact, at the same time that our activities were showing a net budget outlay, based on normal accounting procedures we were actually making a profit annually on our operations, and returning part of that profit to the general fund of the Treasury as a dividend on our capital stock.

The net outlay figure which the Bank can have in any fiscal year is set for us by the Office of Management and Budget. This really means that Federal budget policy is being applied to Eximbank operations in one year against trade policy previously approved for the Bank by Congress as much as 2 or 5 years earlier. This results from the fact that after Congress approves a certain authorization level for Eximbank activity in one fiscal year, the Bank's actual disbursements on loans made pursuant to that authorization level follow the authorization by as much as 5 years. Therefore, we face the situation of the OMB cutting back on our disbursement levels, and also our new authorization levels which will result in future disbursements, in order for the Bank to stay within the budget outlay figure set for it from time to time. In fact, we even face the situation where our net outlay figure is cut back from what is originally presented in the budget and approved by the Congress.

As a result of having to comply with this type of Federal budgetary accounting, the Bank has been unable to initiate programs such as a short-term discount program, which could have an immediate adverse impact on the budget considerably beyond an amount which would be approved by the OMB, and in fact has not been able to plan ahead to fully utilize some of our existing programs because we do not know whether we will be granted the disbursements levels, or budget flexibility, to fund them in future years. This is where our flexibility in being able to respond to the ever-changing needs of the export trade and any continuity in programs and future planning have been greatly curtailed by the Bank's inclusion in the unified Federal budget.

In short, in order to increase our support of the U.S. export effort and to bring new U.S. suppliers into the export business, we must be able to provide the U.S. exporting community the assurances that our financing will be available if they need it to meet foreign competition. We are unable to do this because of the constraints imposed on Eximbank by its inclusion in the unified budget.

If the pending legislation which will relieve the Bank of this artificial restraint is enacted, we will continue to prepare an annual budget to be submitted to the President after review by the Office of Management and Budget; that budget with its various schedules will continue to be printed in the appendix volume of the U.S. budget; and it will continue to be transmitted to the Congress. Eximbank will continue to seek, and in fact welcomes, full congressional review of our proposed annual budgets, particularly by this subcommittee.

NEED FOR EXIMBANK DISCOUNT PROGRAM

Mr. SHRIVER. As you know, interest rates in this country are finally going down somewhat. Will this reduce your discount program?

If not, why not?

Mr. KEARNS. As the Nation's money supply increases, commercial banks have less need for Eximbank's discount facility, but Eximbank must stand ready and able to extend commitments and discount loans when they are needed. Even today some banks are not prepared to offer medium-term credits without an Eximbank commitment to make a discount loan. If money becomes tighter, Eximbank must be able to respond quickly to the needs of the banking community so that export sales will not be lost because of a lack of funds for financing. The key issue is assurance of continuity in export financing—so that the buyer and supplier will be assured that all worthwhile transactions will be financed. No one can accurately predict the future financing availabilities and rates.

NET PROFITS OF THE BANK

Mr. PASSMAN. Mr. Roybal?

Mr. ROYBAL. Thank you, Mr. Chairman.

I was quite impressed with the statement that the bank earnings have increased from $104 million in fiscal year 1969 to $110.7 million in fiscal 1970. That is a raise of 6.4 percent.

Has this been the history of the Bank right along, approximately a 6-percent increase in the last few years?

Mr. KEARNS. I do not know the exact percentage, but I think you can understand that the additional income resulted from two things.

One is that as we accumulate more in the way of reserves, those reserves plus our capital are always out earning money, so that helps increase income.

The other is that 2 years ago we revised our operations somewhat so that we are receiving substantially more in the way of commitment fees and guarantee fees. Those go directly into our income.

So those are the two sources of it. There is no assurance that such an increase would continue. As a matter of fact, last year we maintained a 6-percent lending rate in our commitments and therefore it will be necessary for us to pay the difference between our cost of money and our 6-percent lending rate when the money rates are higher, as they were last year. If the price of money goes higher than 6 percent during the disbursement period, this will reduce our net profit.

EXIMBANK LENDING RATE

Mr. ROYBAL. Do you expect the 6 percent to continue for the next year or so?

Mr. KEARNS. This is something I could not predict exactly, but I see no reason to change the Eximbank rate. I think the 6-percent rate is an effective rate in mixing with the private money so that we get a competitive rate that our exporters can use effectively.

I would certainly not want to recommend to our Board any change at this time. I do not think we foresee any change.

USE OF BANK'S RETAINED RESERVE

Mr. ROYBAL. All right. The remaining $60.7 million of revenues added to the Bank's retained income reserve, is that the reserve that you are talking about, that is being used constantly?

Mr. KEARNS. That is correct. It has been accumulating over the years. It is now somewhere in the neighborhood of one and a quarter billion dollars. This continues to increase each year as our earnings go into it, after paying a dividend to the Treasury. The $60.7 million was added in fiscal 1970 to bring the total to $1,246 million.

Mr. ROYBAL. And you continue to use it?

Mr. KEARNS. That is right, it is constantly in use.

You see, we maintain only minimum balances in our bank accounts. Our money is deposited to the Treasury and we put it out as fast as it comes in. Actually, our bank balance is very low.

COOPERATIVE FINANCING FACILITY

Mr. ROYBAL. I was not able to understand what your Cooperative Financing Facility is. Can you give us a brief rundown on it?

Mr. KEARNS. Yes. It is a market promotion idea that evolved from our experience with the relending program that has been in existence for some time; that is where Eximbank would provide a line of credit to certain financial institutions abroad to relend to smaller borrowers.

The change in our lending pattern now under the Cooperative Financing Facility is that we only finance from our own resources 50

percent of a situation and the other 50 percent comes from the cooperative financing institutions. So we combine those two approaches. In consultation with financial institutions all over the world, we developed this cooperative financing, which in effect means that we take an institution, such as a branch of a U.S. bank abroad or an indigenous bank, and, at their request, we provide a line of credit which they can then in turn relend to a borrower who is buying American equipment.

After an appropriate down payment, this Eximbank amount can be used for 50 percent of the financed portion; the cooperating institution will then provide the remaining 50 percent from their own resources. The result is that we have been able to get a great number of financial institutions all over the world to actually promote the sale of American products and they put up half the money doing it, but they do it because we put up the other half. The cooperating institution benefits from doubling its lending resources, Eximbank benefits through achieving a sale with 50 percent of the money, and the U.S. producers benefit from active markets developed as a result.

I am in hopes that, over the next year or two, we will have at least 200 or 300 of these CFF agreements in various parts of the world. If we do, we will add very significantly to U.S. exports but, more important, we will bring our facilities right into the marketplace with particular service to the medium- and smaller-sized businesses that otherwise cannot effectively use our programs. I think it is probably the best program we have devised in our 2 years in the business.

Mr. ROYBAL. How new is it?

Mr. KEARNS. It is brand new, about 5 months now. We are just barely getting underway. The enthusiasm with which it is greeted is unbelievable.

PURPOSE OF COOPERATIVE FINANCING FACILITY

Mr. ROYBAL. I can understand that, because that caught my eye when you said a new program of cooperative financing facility, I immediately thought of a completely different concept of financing a project in cooperation with the Bank. Is that what it really is?

Mr. KEARNS. The purpose is to get the Eximbank's facilities into the marketplace, where the transactions take place, where the buyer and seller are together. They do not know where to finance it, so they go to their own bank. That is the secret to it. Also, it is getting the financial institutions in these countries interested in U.S. products. It actually has that effect.

Mr. ROYBAL. So the ultimate beneficiary is going to be the United States?

Mr. KEARNS. Actually all parties benefit—as they should in a legitimate transaction. The buyer can finance a useful transaction through his own bank and all of the money, every dollar of it, as paid to suppliers in this country.

Mr. ROYBAL. Regardless of wherever it is based, it still benefits the U.S. market?

Mr. KEARNS. That is correct. Another key aspect is that the cooperative institution takes all the commercial risk in this transaction. So we do not have to go through the expense of examining the credit worthiness of thousands of transactions.

Mr. ROYBAL. I am starting to understand why the chairman was so laudatory in his remarks with regard to the Bank. Now that I see how you operate, I am going to have to start agreeing with him.

Mr. PASSMAN. Thank you.

Mr. ROYBAL. Thank you, sir.

Mr. PASSMAN. Mr. Galifianakis?

I do not know whether you have met all our new members. Mr. Galifianakis is a new member of the committee. Mr. Roybal comes to us from the Foreign Affairs Committee. He brings a lot of experience. We are happy to have our new member here from North Carolina.

EXIMBANK SOURCES OF FUNDS AND EARNINGS

Mr. GALIFIANAKIS. I have a tough last name. Sorry I was late. I saw the chairman at lunch and he told me to have two desserts, so I took him at his word. I have not had an opportunity to review the statement, which I will do at a later time.

As I understand it, the Bank is self-sustaining as an organization, is it not? You are a profitmaking organization?

Mr. KEARNS. That is correct; we need no appropriated funds. We appear before your committee to seek authorization for our various annual activities. We borrow money for part of our needs. We use the income on our capital and reserves and the income that we receive from our various operations. We pay a dividend to the Treasury of $50 million a year, and actually have paid back $706 million on the $1 billion of original capital.

We can and should make a considerable profit for the future.

CONTRIBUTION OF BANK TO U.S. BALANCE OF PAYMENTS

Mr. GALIFIANAKIS. From your brief statement in response to Mr. Roybal, I take it you help the balance of payments substantially?

Mr. KEARNS. Everything we do is related to the balance of payments, because every dollar that we guarantee, insure, or loan is paid to U.S. suppliers in the United States. But the loans are made to entities outside the United States who pay us back in dollars, always in dollars. So everything is a 100-percent balance-of-payments plus, although on some loans the repayment period covers several years.

Mr. GALIFIANAKIS. Your cooperation is primarily with the American banks?

Mr. KEARNS. Primarily, yes, because we work closely with them here. The American banks have a broad network of branch banks, but we do work very closely also with indigenous banks in the various countries, and development banks, wherever there is a possibility of selling merchandise.

LARGEST EXIMBANK TRANSACTION

Mr. GALIFIANAKIS. What is the largest loan that you have made in the past fiscal year?

Mr. BOSTWICK. I believe it is Taiwan Power. Taiwan Power was the largest nuclear power facility.

Mr. KEARNS. The largest single commercial loan would be about $80 million for a nuclear powerplant, but the biggest single transaction was when we agreed to participate in the financing of what is called KSSU, made up of KLM, SAS, UTA, and SWISSAIR, four airlines of Europe who, after examining the aircraft, decided to buy DC–10's.

The magnitude of the transaction was so large that they simply could not finance it, even though they are from financially strong countries. The transaction required some of our participation. The total export amounts to about $700 million overall.

Mr. GALIFIANAKIS. $700 million?

Mr. KEARNS. Yes, sir.

Mr. GALIFIANAKIS. What was the rate of interest?

Mr. KEARNS. On the portion that we financed it was 6 percent. In this case, it was 23 percent of the total purchase.

Mr. GALIFIANAKIS. The $700 million represented 23 percent of the total?

Mr. KEARNS. No. We financed 23 percent of the $700 million.

Mr. GALIFIANAKIS. I see.

Mr. KEARNS. The rest of it came from offshore sources, primarily, and from some U.S. banks.

INTEREST RATE ON KSSU TRANSACTION

Mr. GALIFIANAKIS. Do you think it was at comparable rates of interest?

Mr. KEARNS. No, they were higher rates.

Mr. GALIFIANAKIS. Higher rates?

Mr. KEARNS. Yes, all of them were higher than our 6 percent, but what happened is that our participating to this extent made the entire transaction possible. This is a key transaction for the future because these principal airlines in the center of Europe have now settled on one make and model of aircraft. Since then several other airlines have decided on the same make and model. So for the foreseeable future they will buy this same kind of aircraft because of the economies in servicing and maintenance.

BANK LOAN APPROVAL PROCEDURE

Mr. GALIFIANAKIS. Mr. President, would you review very briefly the procedure by which you determined that you would make that loan?

Mr. KEARNS. Yes, sir.

In the first place, you have either the supplier or the buyer making an application, giving the basic facts. From that point you get into detailed discussions.

We attempt by every reasonable means to determine that our financing is essential if the transaction is to go through. We do this by talking to the government authorities in the applicant countries, the banking institutions and the prospective buyer and seller. We obtain the facts and through experienced analysis determine the necessity of Eximbank financing assistance.

In other words, our position is that unless our financing is essential to the transaction we will not participate. But when we are convinced, after a minute examination, then we participate with them to the extent that is demonstrably necessary. This is a matter of negotiation. Each one of the major transactions is negotiated out.

After the staff and Board of Directors of Eximbank have made the determination of necessity, then in major transactions it must be submitted to the NAC for concurrence. The NAC is the coordinating committee composed of Treasury, State, Commerce, the Federal Reserve Board and ourselves who review the case to be sure that the transaction is in the national interest, and that Eximbank's financing is essential. After having gone through all those procedures, then we proceed on the minimum amount that is necessary from Eximbank to allow the transaction to go through.

APPROVAL OF LOANS BY BANK'S BOARD OF DIRECTORS

Mr. GALIFIANAKIS. Do you do that by vote in Eximbank? When you give an approval, how is your approval manifested? What action do you take in the Bank itself?

Mr. KEARNS. We have a very capable staff who determines from a technical standpoint what all the facts are. They prepare a memorandum outlining all the facts. Then we have a five-man Board of Directors, appointed by the President and confirmed by the Senate, that examines the memorandum and makes the decision from the memorandum. Frequently the officers and directors participate in the actual negotiations.

Mr. GALIFIANAKIS. Does that board vote?

Mr. KEARNS. Yes.

Mr. GALIFIANAKIS. Does a majority constitute approval?

Mr. KEARNS. It could. Very rarely do we have much difference, because if there is a difference, we go back and negotiate again and try to work out any differences.

Mr. GALIFIANAKIS. I am trying to envision, is it an actual board type meeting where you actually face one another?

Mr. KEARNS. Yes.

Mr. GALIFIANAKIS. You then go through the mechanics of approval or disapproval?

Mr. KEARNS. Yes, sir.

EXIMBANK/COMMERCIAL BANK COOPERATION

Mr. GALIFIANAKIS. Do you find yourself confronted with a situation very often where there might be a divergence of opinion say from the commercial banks which say, well, we do not really think the Export-Import Bank is an essential element to finance, therefore, we would hope that you would not do this?

Mr. KEARNS. I think I can safely say that we do not have that situation now, because if a commercial bank indicates its willingness and desire to finance the transaction fully itself, we say, "Okay, you take it then." In any case we would not proceed if the commercial banks could

handle the financing on the terms and conditions that would be acceptable to the buyer.

Now, that is another matter. If the commercial banks say they will take it but they want to charge 11 percent interest, but the buyer would not buy at 11 percent interest, then we, in cooperation with the commercial bank, try to negotiate a rate that the buyer would accept. So our purpose is to allow the transaction to proceed. I do not believe that commercial banks today would claim that we are taking business that they would take otherwise.

EXIMBANK LOSS RECORD

Mr. GALIFIANAKIS. How are you protected if a loan turns out to be imprudent or it is a loss?

Mr. KEARNS. We are not protected. We would take the loss.

Mr. GALIFIANAKIS. How much loss have you sustained?

Mr. KEARNS. Since the Bank has been in business, it has been two one-hundredths of 1 percent of all the loan disbursements.

Mr. GALIFIANAKIS. How does that translate into dollars?

Mr. KEARNS. Our net losses for all programs have been only $8.6 million out of nearly $40 billion in exports supported through last December 31.

Mr. GALIFIANAKIS. How many dollars this past year?

Mr. KEARNS. None in the loan program, but there are some protracted defaults. We have had some claims this year under our insurance program, where we have insured repayment. Since December 31 we have paid $1.6 million in claims which we hope to recover in the not too distant future. It is very little compared to the total amount of business we do.

FIAT TRANSACTION

Mr. GALIFIANAKIS. There was a controversial loan, I do not recall whether it was $50 million, on the part of Export-Import to be made to the Fiat Co. in Italy. Did that ever materialize?

Mr. KEARNS. No, that did not. That was for equipment for the Fiat production plant in the Soviet Union, but through Congressional actions we are restricted in our financing of sales to the Communist countries, except in a country where the President declares it to be in the national interest. The only one that has been eligible under the present restrictions and has received such a determination is Yugoslavia.

Mr. GALIFIANAKIS. That was this year or last year?

Mrs. PIGMAN. 1968.

AUTHORIZATION FOR BANKS FISCAL YEAR 1972 ACTIVITIES

Mr. GALIFIANAKIS. Then the purpose of this meeting is, you are really not asking for money out of the Appropriations Committee?

Mr. KEARNS. No. This is the annual presentation and request for authorization for our various activities for fiscal 1972.

Mr. GALIFIANAKIS. Does that take tax dollars?

Mr. KEARNS. No, it does not. The Appropriations Committee examines each of our proposed operations—the amount of loans, guarantees, insurance, administrative expense—and authorizes our levels of activity for the fiscal year. This is the annual control that Congress maintains over Eximbank's operations.

Mr. GALIFIANAKIS. Can you loan the Federal Government money?

Mr. KEARNS. No.

Mr. GALIFIANAKIS. Too bad.

Mr. KEARNS. We do not loan money to anybody in the United States, as a matter of fact.

Mr. GALIFIANAKIS. Thank you very, much, Mr. President.

Thank you, Mr. Chairman.

JUSTIFICATION MATERIAL

Mr. PASSMAN. We will insert pages 1, 2, 3, 4, 5 and 11 of the justifications in the record at this point.

(The justifications follow:)

EXPORT-IMPORT BANK OF THE UNITED STATES

Estimated Activity - FY 72
(In thousands of dollars)

LOAN PROGRAM:		
Equipment and services authorizations		$2,445,000
Commodity authorizations		75,000
Discount authorizations		676,471
Special foreign trade authorizations		50,000
Subtotal - Gross loan authorizations		$3,246,471
Less: Participations in and cancellations of loans authorized during FY 72		191,471
Net loan authorizations		$3,055,000
GUARANTEE AND INSURANCE PROGRAM:		
Authorization of new and renewed policies	$2,700,000	
Less: Repayment and cancellations on guarantees and insurance	1,243,152	
Subtotal	1,456,848	
Less: Reduction from use of fractional reserve and adjustments	1,113,891	
Charge to new program activity for guarantees and insurance		342,957
OTHER CHARGES TO PROGRAM ACTIVITY:		
Interest and non-administrative expenses 1/		234,883
Equipment 1/		100
Total other than for administrative expense: "New Program Activity"		$3,632,940
Administrative expense 1/		7,699
Total		$3,640,639

1/ On the accrual basis.

EXPORT-IMPORT BANK OF THE UNITED STATES

Comparative Statement of New Program Activity and Administrative Expense
(In millions of dollars)

		FY 1970 Actual		FY 1971 Estimate		FY 1972 Estimate
LOAN PROGRAM:						
Equipment and services authorizations			$1,549.6		$2,137.5	$2,445.0
Commodity authorizations			75.0		92.5	75.0
Discount authorizations			584.2		647.1	676.5
Special foreign trade authorizations			---		50.0	50.0
			2,208.8		2,927.1	3,246.5
Less: Participations in and cancellations of loan authorizations			115.1		177.1	191.5
Net Loan authorizations			2,093.7		2,750.0	3,055.0
GUARANTEE AND INSURANCE PROGRAM:						
Eximbank guarantees and onshore insurance authorizations	$ 613.6			$1,000.0		$1,250.0
FCIA short-term insurance authorizations	800.3			900.0		1,000.0
FCIA medium-term insurance authorizations	345.4			400.0		450.0
	1,759.3			2,300.0		2,700.0
Less: Interprogram transfers, Net	.3			.2		---
Repayments, cancellations and expirations:						
Subject to fractional reserve	987.9			1,164.1		1,243.2
Issued at 100 %	.4			---		---
Subtotal - 100 %	770.7			1,135.7		1,456.8
Less: Reduction from use of fractional reserve and adjustments	517.2			899.8		1,113.9
Charge to new program activity for guarantees and insurance			253.5		235.9	342.9
OTHER CHARGES TO PROGRAM ACTIVITY:						
Interest and non-administrative expense 1/			203.6		217.6	234.9
Equipment 1/			.1		.1	.1
Total other than for Administrative expense			$2,550.9		$3,203.6	$3,632.9
Administrative expense 1/			$ 5.8		$ 6.9	$ 7.7
Total			$2,556.7		$3,210.5	$3,640.6

1/ On the accrual basis.

EXPORT-IMPORT BANK OF THE UNITED STATES

POSITION WITH RESPECT TO LENDING, GUARANTEE, AND INSURANCE AUTHORITY

(In millions of dollars)

	June 30, 1970 Actual	June 30, 1971 Estimate	June 30, 1972 Estimate
STATUTORY AUTHORITY	$13,500.0	$13,500.0	$13,500.0
Proposed increase to authority	---	---	6,500.0
CHARGES AGAINST AUTHORITY	$13,500.0	$13,500.0	$20,000.0
Outstanding loans receivable	5,713.8	5,961.3	6,359.8
Loans sold with recourse 1/	398.5	681.1	852.1
Undisbursed authorizations, loan agreements signed	1,916.6	2,377.1	2,809.8
Undisbursed authorizations, loan agreements unsigned	1,060.0	1,350.0	1,815.9
Subtotal	9,088.9	10,369.5	11,837.6
Guarantee and insurance Programs: 2/			
Short-term:			
Commitment to Foreign Credit Insurance Association	275.0	275.0	350.0
Medium-Term:			
Foreign Credit Insurance Association	114.1	176.6	221.0
Export-Import Bank of the United States	228.2	401.4	624.9
On-shore insurance	2.5	2.5	2.5
Subtotal	619.8	855.5	1,198.4
Total charges against authority	9,708.7	11,225.0	13,036.0
Unused authority	$ 3,791.3	$ 2,275.0	$ 6,964.0

1/ In general, charged at 100%.

2/ In general, charged fractionally at 25%.

EXPORT-IMPORT BANK OF THE UNITED STATES

Position with respect to Gross Guarantees and Insurance Authority

(In millions of dollars)

	June 30, 1970 Actual	June 30, 1971 Estimate	June 30, 1972 Estimate
Statutory Authority	$3,500.0	$3,500.0	$3,500.0
Proposed increase to authority	---	---	6,500.0
	$3,500.0	$3,500.0	$10,000.0
Charge at end of year 1/	2,500.5	3,447.9	4,817.7
	$ 999.5	$ 52.1	$ 5,182.3

1/ Includes certain loans sold with recourse that are charged fractionally at 25 %: $22.0 in FY 1970; $26.0 in FY 1971; and $24.0 in FY 1972.

EXPORT-IMPORT BANK OF THE UNITED STATES

Estimate of Net Budget Outlays
on the Cash Basis
(In millions of dollars)

	FY 1970 Actual	FY 1971 Estimate	FY 1972 Estimate
Disbursements:			
Regular loans	$1,162.4	$1,335.4	$1,405.7
Discount loans	146.4	395.2	425.9
Repurchase of loan sold with recourse	260.3	---	---
Interest and financial expense	204.7	209.3	239.3
Operating expenses	5.8	6.9	7.7
Letters of credit reimbursed	27.7	7.1	20.0
All other	4.4	---	---
TOTAL	$1,811.7	$1,953.9	$2,098.6
Receipts:			
Principal - regular loans	717.0	881.8	880.0
Principal - discount loans	153.6	188.4	173.1
Loan sold	406.2	420.0	400.0
Interest and fees	305.7	315.7	330.5
Unpaid letter of credit advances	7.1	20.0	25.0
All other	3.0	---	---
TOTAL	1,592.6	1,825.9	1,808.6
Net budget outlays	$ 219.1	$ 128.0	$ 290.0

EXPORT-IMPORT BANK OF THE UNITED STATES

Salaries and Expense Limitation Statement Relating to
1971 and 1972 Administrative Expense Budgets
(on the accrual basis)
(In thousands of dollars)

		1971 Estimate	Increase	1972 Estimate
11	Personnel compensation	$5,418	$ 454	$5,872
12	Personnel benefits	431	21	452
21	Travel and transportation of persons	207	43	250
22	Transportation of things	5	1	6
23	Rent, communications, and utilities	592	181	773
24	Printing and reproduction	52	1	53
25	Other services	135	17	152
	Services of ther government agencies	44	15	59
26	Supplies and materials	64	18	82
	Total	$6,948 *	$ 751	$7,699 *

Administrative Expense - Comments

The foregoing tabulation shows various increases in the Bank's administrative expenses. Personnel compensation represents the major increase; average employment is estimated to increase from 365 to 386 with 390 on board at the end of the year. Other related increases have also taken into account increased activity in fiscal 1972 under the Bank's new and existing programs.

* Does not include increase Pay cost due to P. L. 91-656.

PURPOSE OF THE EXPORT-IMPORT BANK

Mr. PASSMAN. To put the record straight, as I understand it—there have been some rather confusing statements made recently with respect to offshore procurement.

It is my understanding of Export-Import Bank that it finances U.S. goods and services and you do not finance offshore procurement or manufactured goods from a third country? You can only finance goods and services of the United States, is that correct?

Mr. KEARNS. That is correct.

Mr. PASSMAN. Company B may have a plant in the United States manufacturing tractors, let's say. The Export-Import Bank will finance the sale of those tractors to any approved country or any approved account, but if that same company should have a plant, say in West Germany or the United Kingdom, you finance no part of the production of that plant; it is tied entirely to U.S. production, is that correct?

Mr. KEARNS. That is correct.

(Discussion off the record.)

BENEFITS TO U.S. ECONOMY AND BALANCE OF PAYMENTS FROM BANK PROGRAMS

Mr. PASSMAN. Back on the record.

You never approve a loan without a down payment? You have country X that wants to borrow $11 million, then the minimum amount that they can pay on the commodities they are going to purchase is 10 percent or about $1 million, and you will finance the $10 million?

Mr. KEARNS. That is correct.

There is one slight exception which I will cover a little later.

Mr. PASSMAN. I will get to that, but, in principle, it is that way?

Mr. KEARNS. That is correct. The total immediate balance of payments income from abroad in the average transaction would run——

Mr. PASSMAN. About 25 percent?

Mr. KEARNS. That is correct.

Mr. PASSMAN. So in very simplified form, if you take the overall formula, here is a $10 million loan, it immediately brings in through the combination of this formula about 25 percent of the loan, which would be $2.5 million.

Mr. KEARNS. Somewhere in that vicinity.

Mr. PASSMAN. That benefits immediately our balance-of-payments situation, does it not?

Mr. KEARNS. Yes, sir.

POLICY REQUIREMENT FOR AT LEAST 50 PERCENT EXTERNAL SOURCES

Mr. PASSMAN. Let's take the remainder of the $7.5 million. Then you have a plan in the Export-Import Bank to where you start looking for a commercial banker, either a bank or an insurance company who will participate in 50 percent of that loan. So actually, some commercial bank or insurance company who is interested in making loans to get a return, will take 50 percent of that loan and the Export-Import Bank will take the other 50 percent, is that correct?

Mr. KEARNS. That is correct.

Mr. PASSMAN. Is 50 percent about the average?
Mr. KEARNS. Yes. We are not financing more than 50 percent.
Mr. PASSMAN. Not more?
Mr. KEARNS. That is correct.
Mr. PASSMAN. That is the formula?
Mr. KEARNS. That is correct.
Mr. PASSMAN. So in reality, out of this $10 million in loans, Export-Import Bank is actually only putting up about $4,500,000, the other is either a down payment or some bank is buying its security?
Mr. KEARNS. Yes, sir.

FACTORS INVOLVED IN COMMERCIAL BANK EXPORT FINANCING

Mr. PASSMAN. All of these loans would be considered bankable, with the only exceptions being length of time and rate of interest, is that correct?
Mr. KEARNS. That is correct, with our guarantee.
You understand, of course, we take guarantee risk?
Mr. PASSMAN. But you charge for that?
Mr. KEARNS. That is correct.
Mr. PASSMAN. Now here is a bank that would be willing to make, we will say, an $8 million loan, but the only reason they cannot make that $8 million loan would be because of the term and the interest rate?
Mr. KEARNS. That is correct.
Mr. PASSMAN. So we will say it is a 7-year loan for $8 million. The bank takes 50 percent of that loan. When the payments start coming in, they first pay the bank off and then the Export-Import Bank would collect the last 3 or 3½ years?
Mr. KEARNS. That is if it is necessary to make the deal possible.
Mr. PASSMAN. If it is necessary?
Mr. KEARNS. That is correct.
Mr. PASSMAN. Then of course during the time that you are holding 50 percent of this loan, you are drawing 6 percent interest, are you not?
Mr. KEARNS. That is correct. And if the other half is guaranteed, we collect a guarantee fee during the period.

PROFIT FROM GUARANTEES AND INSURANCE PROGRAMS

Mr. PASSMAN. Have you had a profit on your insurance program?
Mr. KEARNS. Yes, substantial, from our guarantees and insurance programs combined. The insurance program itself has been operating at a loss, but we hope to turn this around through the various changes and innovations which we have instituted recently in this program.

BANK PROFITS SINCE INCEPTION

Mr. PASSMAN. What have been the total profits of Export-Import Bank since its inception?
Mr. KEARNS. I have it right here.
It is just about $2 billion.
Mr. PASSMAN. About $2 billion?
Mr. KEARNS. That is correct. It would be our reserve plus what we paid the Treasury in dividends.

TOTAL DIVIDENDS PAID TO U.S. TREASURY ON CAPITAL STOCK

Mr. PASSMAN. What have you repaid the Treasury out of the original $1 billion?

Mr. KEARNS. $706 million.

Mr. PASSMAN. In the way of dividends?

Mr. KEARNS. That is correct.

Mr. PASSMAN. What do you have as surplus in the Export-Import Bank that would also be a profit?

Mr. KEARNS. Approximately $1¼ billion.

Mr. PASSMAN. So we are thinking in terms of about a $2 billion profit?

Mr. KEARNS. Correct.

VOLUME OF U.S. EXPORTS SUPPORTED UNDER BANK PROGRAMS

Mr. PASSMAN. Approximately what would you say the volume of exports has been since the inception of the Export-Import Bank?

Mr. KEARNS. More than $34 billion in exports supported through the last fiscal year.

PROFIT TO U.S. BUSINESS AND U.S. TREASURY FROM BANK-SUPPORTED EXPORT SALES

Mr. PASSMAN. $34 billion. And it is assumed that there is a profit of about 25 percent when you deal with commodities. That means about $8.5 billion clear profit to the manufacturers of the goods that went into our export market, using the formula.

Then of course, out of this tremendous volume we would assume that the corporate tax is 51 percent, which means about $4.5 billion paid into the Internal Revenue Service out of the profits made on that volume.

It makes a pretty good story, does it not?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. One that would be almost impossible to tear down because you do really have a business proposition. I think three agencies are revenue-producing: Bureau of Customs, Internal Revenue Service, and the Export-Import Bank. There are some minor ones, but those are the three major ones, are they not?

Mr. KEARNS. Yes, sir.

POTENTIAL VOLUME OF EXPORTS WHICH COULD BE SUPPORTED BY BANK IN FISCAL YEAR 1972

Mr. PASSMAN. What do you anticipate your requests will be this year, the amount of loans that you could make this year, following prudent business operation? What would be the demand in Export-Import Bank for solid credits, solid loans to pay for goods and services?

Mr. KEARNS. On the basis of the authorizations submitted to you——

Mr. PASSMAN. I am not thinking about authorizations, I am thinking about your potential, what you would like to have, if we said,

"Mr. Kearns, we are going to cut you loose without any restrictions." What would be your estimate as to the amount of commodities you would finance in fiscal 1972?

Mr. KEARNS. If we were not restricted——

Mr. PASSMAN. I am making a hypothetical case, yet it is a real case, if you were cut loose and had the flexibility, then what would be the amount of commodities that you could finance for the United States?

Mr. KEARNS. My estimate would be $10 to $12 billion.

Mr. PASSMAN. Do you want to use $12 billion?

Mr. KEARNS. If we had freedom to use the basic Eximbank authority, yes, sir.

REVENUE TO TREASURY ON POTENTIAL VOLUME OF EXPORT SALES

Mr. PASSMAN. All right. On $12 billion of U.S. commodities, a 25 percent profit would be $3 billion to the manufacturers, and if they are operating at a 51 percent maximum, and most of them are getting into that bracket, what would they pay into the U.S. Treasury?

Mr. KEARNS. $1.5 billion.

BUDGET RESTRICTION PREVENTING BANK FROM SUPPORTING $12 BILLION EXPORT VOLUME

Mr. PASSMAN. $1.5 billion.

Now, with the restriction that you are operating under today, you could only finance up to $8 billion; is that correct?

Mr. KEARNS. From all the programs, that would be the maximum.

Mr. PASSMAN. That would be the maximum?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. Now, the budget places an absolute ceiling upon your operations and when you have reached that ceiling, regardless of the demands or regardless of how good the credit of the nation or individual applying is, you have to slow down your operation to stay within this budget limitation; is that correct?

Mr. KEARNS. That is correct, but it is even more restricted than that because we must pace ourselves to be sure that we do not overspend. So the tendency is to always underact, to be sure that we will not have an excess call on the resources which will be available.

EFFECT ON BANK ACTIVITY OF ANNUAL BUDGET LIMITATION

Mr. PASSMAN. Now, in looking at the limitation placed on you by the Director of OMB, you move from one fiscal year to another, you make a loan in one fiscal year and it is paid back in another fiscal year; I have been told that under the present plans you could make a loan of $10 million to country *x* and the following day that country could pay that $10 million back; however, notwithstanding the fact that it has been paid back, this $10 million is against your ceiling.

Mr. KEARNS. That is, if the $10 million was paid back in the next fiscal year.

Mr. PASSMAN. I know. Most of your transactions do move out of one fiscal year into another, so for all practical purposes that is the way it operates.

Mr. KEARNS. That is correct.

Mr. PASSMAN. If you make the loan and then it is paid back, then of course that works against your limitations, the payback notwithstanding?

Mr. KEARNS. Yes, because the disbursements are considered as expenditures under the present circumstances.

Mr. PASSMAN. It is a bit like a man going into a bank and borrowing $10,000 and the following day he pays it back, and the third day he goes in and wants to borrow $10,000, they say no, you have had your limit for the year, you must wait until next year.

Mr. KEARNS. That is correct.

NEED FOR BANK TO BE RELIEVED OF UNIFIED BUDGET RESTRICTIONS

Mr. PASSMAN. I think it is highly desirable that the Export-Import Bank remain under the unified budget control, providing they can get an increase in the limitation. Now if you cannot get an increase in the limitation, I think there is some justification for making the exception.

I have opposed you on this in the past, but I have analyzed your operation, I have a better understanding of it today. I am of the opinion that the people down at the budget did not understand it completely. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Have I made a fairly factual and accurate case?

Mr. KEARNS. It is.

U.S. BALANCE-OF-PAYMENTS PROBLEM

Mr. PASSMAN. I want to understand it. I want to be fair, I want to be a responsible Member of Congress. If this operation is making money for American manufacturers and in turn they are paying U.S. taxes, I do not know why you should not have the limitation increased. If they are not willing to permit you to function according to the requests you have for good credits to sell commodities, then I do not see any alternative other than to take you out from under the unified budget control which I would not like to see.

So few people really understand this, what we are talking about, when we say a balance-of-payments credit and balance-of-payments deficit. Yes, Members of Congress, lots of accountants, lawyers, do, but the average American who has never had anything to do with this type of operation does not know what we are talking about. It simply means we are sending more dollars out than we are bringing home.

If you actually send $3 billion more abroad than you are bringing home, that simply means that foreign governments and foreign nationals hold these short-term credits against the United States.

Now when they accumulate these dollars in excess of their needs to deal in commerce, there are only two things they can do, put them in a vault or demand gold for them; is that correct?

Mr. KEARNS. Right.

EFFECT OF PAYMENTS DEFICIT ON STRENGTH OF DOLLAR

Mr. PASSMAN. The more of these dollars you can bring home and the lower our annual balance-of-payments deficit, the better off our monetary system for the United States would be, would it not?

Mr. KEARNS. Not only for the United States, but for the countries that hold dollars as reserve currency. It strengthens their position, too.

Mr. PASSMAN. I am mainly thinking of the United States. I know you cannot think of the United States without thinking of all nations, but basically I am thinking of the United States, because we are the ones guilty of overspending. I think in the past 20 years we have sent $45 billion more abroad than we have brought home. Now there is a limit to how much further we can go because a lot of European bankers are getting a little shaky at this time. They have all the dollars they want. Now they are beginning—our agreements notwithstanding—to demand gold again.

You know that, do you not? If we should get a run we are in serious trouble. A lot of foreign bankers are quite skeptical of the continuation of our overspending in the United States.

I think the day of reckoning is around the corner.

If you can make a significant contribution towards reducing our annual balance of payments deficit and still maintain a sound operation, I am going to be compelled to support you. I still think it is desirable to keep you under the unified budget control, but only if you can get those people downtown to agree to raise the authorization, then change the language to where they could not impound the funds after they had agreed to it.

That has been done in the past, has it not?

Mr. KEARNS. Yes, sir.

Mr. GALIFIANAKIS. Would it be permissible to propound another question?

Mr. PASSMAN. Yes, I yield.

EXIMBANK RELATIONSHIP TO WORLD BANK

Mr. GALIFIANAKIS. What is your relationship to the World Bank? Are you involved in the operation of loans?

Mr. KEARNS. The World Bank has an entirely different function than does the Export-Import Bank. Its prime purpose is the development of the less-developed countries.

Mr. GALIFIANAKIS. You have no relationship with them?

Mr. KEARNS. We do work cooperatively with the World Bank from time to time on selected projects. We have the closest coordination of information and experience.

We find that from time to time when an over-all project can be separated into different units, where the World Bank can take part of it, perhaps the Inter-American Development Bank can take part of it, and Export-Import Bank can take part of it, we work cooperatively and do this regularly.

BANK INTEREST RATE

Mr. GALIFIANAKIS. Does your interest rate come down for that kind of loan?

Mr. KEARNS. No, our interest rate stays the same in all transactions. At the moment it is lower than the World Bank.

Mr. PASSMAN. But yours is fixed at 6 percent?

Mr. KEARNS. We have the privilege of changing it, but we feel this is a good rate. It is not fixed by law.

Mr. PASSMAN. You cannot go below 6?

Mr. KEARNS. We could.

Mr. PASSMAN. But you do not?

Mr. KEARNS. There have been cases in the past, quite some time in the past, when there have been political loans to assist other countries which had problems. For example, going back to the reconstruction days, there were some loans made as low as 2 and three-eighths. This practice is no longer used.

Mr. PASSMAN. We were borrowing money then for 1.5 percent, you understand.

Mr. KEARNS. That is right.

Mr. PASSMAN. But you still had a profit even at that rate, is that not correct?

Mr. SAUER. That is correct.

EXPORT EXPANSION FACILITY

Mr. GALIAFIANAKIS. Do you have a soft loan policy?

Mr. KEARNS. Not a soft loan policy. Two years ago the Congress in its wisdom established what they called an Export Expansion Facility.

It is sort of a misnomer, actually, because it is not any facility at all. All it says is: You in the Export-Import Bank can lose $500 million if you want to. You cannot make any longer loans than you would otherwise, but you can make loans that are a little less desirable from a credit standpoint.

The unfortunate thing is that in the "trade" some people think that this facility was provided $500 million of money, but it was not. The money comes from the same Eximbank pot. But what we do is assign cases to this facility from time to time. When we have a situation in a country where the credit worthiness of the country in the short run may be questionable, with the agreement of the Export Expansion Committee (which is made up of Commerce, State, Treasury, and Eximbank), assign the loan to that category. But I can tell you we do not have any more intention of losing those loans than we do the others. We may have to roll them over sometime. We may have to give them a little extra time to get over a tight spot.

PROVISION FOR LOSSES UNDER EXPORT EXPANSION FACILITY

Mr. PASSMAN. Let's put this in the record because I have given you heck on that.

Of course, the Congress has been trying to make an AID agency out of Export-Import Bank and you know that. So they passed the legislation which made it possible for you to have a semi-foreign aid window, saying "Now the rigid credit criteria by which you finance commodities can be lowered."

In the event the losses should come, here are where the losses come, part of it out of profits, part of it is a withdrawal from the Treasury.

I have stated that correctly, have I not?

Mr. KEARNS. That is correct.

Mr. PASSMAN. But you in your sound judgment and the Board have not exercised the right you have because the minute you start financing

up to the full capacity on this arrangement, then it simply means you have to cut down on making good solid loans, is that not correct?

Mr. KEARNS. That is correct.

(Discussion off the record.)

FUTURE OPERATION OF THE BANK

Mr. PASSMAN. Thank you.

Your present plans are to continue to operate the Export-Import Bank in the future the same as you have in the past, notwithstanding the fact that you do have legislation to make possible less favorable loans?

Mr. KEARNS. These decisions do not depend on what this Board of Directors does. It is an inherent part of Eximbank philosophy and procedure.

Mr. PASSMAN. I know. But who could force you, if you decided on your Board not to do it. If you have an application for a loan that does not look favorable, you do not see that the country would be able to pay it back, your Board makes that decision whether or not you should reject it?

Mr. KEARNS. That is correct.

Mr. PASSMAN. So my question is, you intend to operate in the future as you have in the past on a good sound operation and any participation in this more permissive field will be the exception and will not be the rule, is that correct?

Mr. KEARNS. It will certainly be the intention of this Board and I believe of any succeeding Board.

LOANS TO DEVELOPED COUNTRIES FOR PURCHASE OF DEFENSE ARTICLES

Mr. GALIFIANAKIS. What portion of your loan business is involved in the sales of military equipment?

Mr. KEARNS. In our request for authorization, we have $300 million maximum for military sales to developed countries.

Mr. GALIFIANAKIS. Could you furnish for the record, if you don't have it, the loans that were made and to whom and the amounts?

Mr. KEARNS. Yes, sir.

Mr. GALIFIANAKIS. And the terms.

Mr. KEARNS. Yes, sir.

PURCHASE OF DEFENSE ARTICLES AND SERVICES, AUTHORIZED FISCAL YEAR 1970

County	Loan No.	Date authorized	Amount authorized (in millions)	Interest rate (percent)	Repayment terms	Expiry date
Australia	2779	Apr. 15, 1970	35	4¾	14 SA	June 30, 1971
Do	2779	June 25, 1970	[1] 4	4¾	14 SA	Do.
Do	2780	Apr. 15, 1970	89	7⅛	14 SA	June 30, 1973
Spain	2852	June 30, 1970	120	7⅛	14 SA	June 30, 1971
Italy	2853	do	13	7⅛	13 months	May 15, 1971
Do	2854	do	25	7⅛	7 SA	Dec. 31, 1972
Total fiscal year 1970			286			

[1] Increase.

Mr. GALIFIANAKIS. Who was the largest applicant for credit for that purpose?

Mr. KEARNS. This year, Iran.

Mr. GALIFIANAKIS. How much?

Mr. KEARNS. $120 million.

Mr. GALIFIANAKIS. Was that a small loan?

Mr. KEARNS. No; it covered aircraft and tank retrofit.

Mr. GALIFIANAKIS. Can you give me two or three countries?

Mr. KEARNS. In recent years we have supported military sales to Iran, United Kingdom, Australia, New Zealand, Spain, and Italy.

Mr. GALIFIANAKIS. If you could furnish for the record the rest of them, this would be helpful, describing the purpose of the loans.

Mr. KEARNS. Yes, sir, I would be delighted to.

CREDIT CRITERIA

Mr. PASSMAN. Under your operation you can make loans to a foreign government or any foreign business, corporation, or individual that meets your credit criteria; is that correct?

Mr. KEARNS. That is correct, except in the Communist countries.

Mr. PASSMAN. Of course, that is understood. That would take a Presidential determination.

Mr. KEARNS. Yes, sir.

COUNTRIES REQUIRING A PRESIDENTIAL DETERMINATION FOR BANK FINANCING

Mr. PASSMAN. Could you place in the record the countries in which you cannot make loans without a Presidential determination?

Mr. KEARNS. Yes, sir.

(The information follows:)

COUNTRIES TO WHICH EXIMBANK PROHIBITED FROM EXTENDING EXPORT FINANCING WITHOUT A PRESIDENTIAL DETERMINATION

(Sec. 2(b)(2) of Export-Import Bank Act of 1945, as amended)

Peoples Republic of Albania.
Peoples Republic of Bulgaria.
Peoples Republic of China.
Czechoslovak Socialist Republic.
German Democratic Republic (East Germany).
Estonia.
Hungarian Peoples Republic.
Latvia.
Lithuania.
North Korean Peoples Republic.
North Vietnam.
Outer Mongolia-Mongolian Peoples Republic.
Polish Peoples Republic.
Rumanian Peoples Republic.
Tibet.
Federal Peoples Republic of Yugoslavia.
Cuba.
Union of Soviet Socialist Republics (including its captive constituent republics).

Mr. PASSMAN. That would be a lot easier than placing in the record the list of the countries where you can.

Mr. KEARNS. Yes, sir.

BANK SUPPORT OF EXPORTS TO LATIN AMERICA

Mr. PASSMAN. I believe in Latin America all of the Latin American countries are eligible for Export-Import Bank loans with the exception of Cuba, and maybe Chile at the present time.

Mr. KEARNS. Legally Cuba would be the only one that would be excluded, sir.

Mr. PASSMAN. And you are making loans annually, are you not, to most of the Latin American countries?

Mr. KEARNS. Regularly, every day.

Mr. PASSMAN. Really Latin America is where we have a very fine market for our goods and services, is it not?

Mr. KEARNS. Yes, sir; it is the biggest single market.

Mr. PASSMAN. Biggest single market that we have?

Mr. KEARNS. Yes, sir.

Mr. PASSMAN. Collectively you are speaking?

Mr. KEARNS. Yes, as a geographic area. We do business, incidentally, in 143 countries.

NUMBER OF NATIONAL STATES

Mr. PASSMAN. Wait a minute. You only have 139.

Mr. KEARNS. Actually, Mr. Chairman, I should have said 143 markets, not countries. I am sure that the Department of State and we are in agreement with respect to the number of independent political States in the world, but I think it is important to understand that we also provide support to those of our exporters selling to overseas markets which may not be independent countries.

AUTHORITY OF COMMITTEE TO SET BANK ANNUAL ACTIVITY LIMITS

Mr. PASSMAN. I am going to run along briefly now. I might say this for the record, while these other gentlemen go to answer their names. Everything that comes to this committee under normal procedures has previously been authorized. We deal with authorizations, and it is only in the absence of an authorization that we act as the appropriating committee as well as the authorizing committee, clearing our bill through the Rules Committee so as to expedite the business of the Congress. According to precedent this committee could adjust this limitation and be in compliance with the law as we interpret it and as we established in one previous year. Is that a statement of fact?

Mr. KEARNS. I think so.

LIMITATION ON ADMINISTRATIVE EXPENSES

Mr. PASSMAN. So please understand if we wanted to cut the Export-Import Bank in two, we have the authority, but the thing that we do deal with specifically is a limitation on the administrative expense.

I believe in fiscal 1971 you had a limitation on the administrative expense of $6,948,000. Have you asked for a supplemental to increase your limitation?

Mr. KEARNS. After the last authorization was passed, the Berne Union, which is an organization of international credit organizations, decided to come to the United States for its annual meeting, and it's customary for the host country to do some entertaining. So we asked

for and you were kind enough to grant an additional $8,000 within our overall administrative expense limitation for entertaining of these people from 23 countries.

SUPPLEMENTAL PAY COSTS

Mr. PASSMAN. I think that is entirely proper. We are thinking in terms of pay increases enacted by Congress. How was that handled?

Mr. KEARNS. We will require $435,000 more for those pay costs.

Mr. PASSMAN. Then you did ask for a supplemental?

Mr. KEARNS. Yes, sir.

TOTAL ADMINISTRATIVE EXPENSES FOR FISCAL YEAR 1971

Mr. PASSMAN. What is your total considering what you requested in the original budget last year, and the additional $8,000 as well as the cost of the pay increase? Give us that grand total.

Mr. GALIFIANAKIS. Mr. Chairman, are these tax dollars you are asking about?

Mr. PASSMAN. No; this works out of their profits.

Mr. GALIFIANAKIS. We are not talking about tax dollars?

Mr. PASSMAN. No.

Mr. KEARNS. This is authorization to use some of our income. $6,613,000. Is that correct?

Mr. DUGAN. With the supplemental it is $7 million.

Mr. PASSMAN. $7 million?

Mr. DUGAN. Yes.

Mr. PASSMAN. I am peculiar about dollars. Is that an exact figure, or are you rounding that off?

Mr. DUGAN. That is a rounded figure.

Mr. PASSMAN. What is it? $7.4 million?

Mr. KEARNS. Here it is; $7,047,126.

FISCAL YEAR 1972 ADMINISTRATIVE EXPENSES

Mr. PASSMAN. I am always exacting about those figures because that little difference there is more than the salary that either of us gets for a year.

The total request for fiscal 1972 with the expanded operations is $7,699,000?

Mr. KEARNS. That is correct.

ESTIMATED NET PROFITS FOR FISCAL YEAR 1971 AND FISCAL YEAR 1972

Mr. PASSMAN. Would you give us an estimate of what you think your profits may be for 1972?

Mr. KEARNS. They would be greater than they will be for 1971.

Mr. PASSMAN. What are your anticipated profits for 1971?

Mr. KEARNS. $113 million. We are estimating $117 million for fiscal 1972.

Mr. PASSMAN. $117 million, and you are asking for the privilege to spend $7,699,000 of those profits to administer the entire function of the Export-Import Bank; is that correct?

Mr. KEARNS. The $117.4 million would be after having spent the $7.7 million. It would be $125,095,000.

Mr. PASSMAN. You estimate you would clear $125 million for the American taxpayers or the Treasury in fiscal 1972?

Mr. KEARNS. That is correct; that is the estimated gross profit before administrative expenses.

Mr. PASSMAN. And you ask for a limitation of $7,699,000 to administer this entire function?

Mr. KEARNS. That is correct.

NUMBER OF COUNTRIES IN WHICH LOSSES OCCURRED

Mr. PASSMAN. Now, if we may, over the period of the operation of the Bank, how many nations have we had bad experience with, where we had to charge off the debts and losses?

Mr. KEARNS. Ten.

(Discussion off the record.)

PROPOSED LEGISLATION: FLEXIBILITY AND CONTINUITY

Mr. PASSMAN. With this legislation that you are requesting, you are asking for it mainly for flexibility, aren't you?

Mr. KEARNS. Flexibility and continuity, the two essentials.

Mr. PASSMAN. Now, would continuity mean giving you the right to deal with Communist countries and countries that do not maintain diplomatic relations with us?

Mr. KEARNS. No; continuity would be the assured ability to fund the commitments that we make regardless of what happens in the budgetary process or the money market.

That is what we mean by continuity.

COMMUNIST COUNTRY TRANSACTIONS

Mr. PASSMAN. Aren't you actually, in this legislation which passed the Senate, asking to be given more flexibility to do business with Communist countries and with those who do not have diplomatic relationships with us?

Mr. KEARNS. We did not ask for that in the legislation that we proposed, but in the Senate bill as it was adopted yesterday——

Mr. PASSMAN. You did not ask for it?

Mr. KEARNS. No.

Mr. PASSMAN. If everything moved along possibly the way you would like to have it—I am using that "if" now—then you would register no objection to the House cleaning the bill up a little, would you?

Mr. KEARNS. We told the Senate in our testimony that we would take no position for or against that proposed provision.

Mr. PASSMAN. But then you would not object if an amendment would be offered on the floor to clean the bill up? Then the person who offered the amendment could say, "The Export-Import Bank has taken no position. They did not ask for this legislation and they are not objecting to it." That would be a fair statement?

Mr. KEARNS. That is correct.

NEED FOR ADDITIONAL BUDGET AUTHORITY

Mr. PASSMAN. I expect there will be an amendment, you understand, because I think about all we can do is take care of ourselves and take care of friendly countries. I want to say again, Mr. Kearns, and members of the Board, I have some misgivings about removing the Export-Import Bank out from under the control of the unified budget, but I think you are going to have to have an alternative. Unless the Congress agrees to raise the expenditure limitation so that you can operate within this estimate of $10 billion to $12 billion, making a profit for the American manufacturers, yielding revenue to the Treasury, then I am of the opinion I am going to have to change my position. I have always felt that if I have made a mistake, I will try to correct that mistake and if I hurt any individual's feeling I will always apologize. In this instance I am not too sure that the end justifies the means, and I am going to discuss it and if this bill is cleaned up to where you can't deal with Communist countries and countries which have broken diplomatic relations, conceivably you may have made a convert out of me.

Mr. ROYBAL. May we go off the record?

Mr. PASSMAN. Yes.

(Discussion off the record.)

EFFECT OF PROPOSED LEGISLATIVE REVISION ON COMMUNIST COUNTRY TRANSACTIONS

Mr. PASSMAN. Let's read it in the record, and I am glad that the President agreed they take no position. They would not oppose an amendment to correct it. I am reading from page 8 of Senate Report 92–51, the caption is:

"Removal of Certain Restrictions on Export-Import assistance."

It reads:

The present Export-Import Bank Act contains an absolute prohibition against the extension by the Bank of any credit or guarantee assistance in connection with any exports to the nations of Eastern Europe, regardless of the nature of the exports. The bill removes this absolute prohibition and provides that the President of the United States may permit such Export-Import Bank assistance for any transaction which he determines will be in the national interest. Such a determination must be reported to the Senate and the House of Representatives within 30 days after it is made.

Mr. PASSMAN. Now, of course we all know that these Presidential determinations are always based upon the recommendations of the department head because I think we have established for the record it would take 1,293 men to do all the things issued in the name of the President, so he has to follow the recommendations of his department heads.

This would give you that right to do any business you want to with these Eastern European countries if you moved on the basis of a Presidential determination, and it is something that you did not ask for and you may not abuse it, you understand, but you don't know what your successor may do. I think it should come out.

BANK POSITION ON PROPOSED REVISION

Mr. KEARNS. Mr. Chairman, I want to be consistent with what we did in the Senate.

Mr. PASSMAN. Yes.

Mr. KEARNS. When this was proposed in the Senate, we said that we took no position for or against. The Eximbank had nothing to do with the original restriction put in our statute. We can operate either with or without the option.

Mr. PASSMAN. But you didn't even know it was going to be put in?

Mr. KEARNS. We had heard about it.

Mr. PASSMAN. But you took no position and you are not recommending it at this time?

Mr. KEARNS. That is right.

Mr. PASSMAN. And you have operated very nicely without it in the past?

Mr. KEARNS. Yes.

"CONCORDE"

Mr. GALIFIANAKIS. Did you loan any money to build the Concorde?

Mr. KEARNS. No, sir; absolutely not.

EXPLANATION OF BANK POLICY ON LOCAL COSTS AND DOWN PAYMENTS

Mr. Chairman, two things. One is that in our earlier discussion on the Bank there are two aspects which need clarification—one regarding local costs, and the other downpayment. I would like to submit for the record the actual language on these aspects.

(The information follows:)

Local costs.—Projects that require a combination of imported equipment and technology with local components of labor, materials, or other goods and services of host country origin occasionally need some support of the local costs if the project is to proceed. When it has been clearly demonstrated that such support is needed, Eximbank will make currencies available for local cost financing equal to the equivalent of 15 percent of the U.S. export. This is accomplished by guaranteeing repayment of such an amount to a non-U.S. financial institution that in turn provides the currency. Eximbank does not finance purchases from third countries. The local costs are only those costs incurred within the country of the buyer of the U.S. goods and services.

Cash or downpayment.—Under some circumstances the purchaser is unable to produce the required advance payments. When clearly warranted such payment may be waived provided that no less than 25 percent of the total purchase price of the U.S. export is supplied from a non-U.S. financial source, thus providing an immediate positive 25-percent balance-of-payments impact.

EXPLANATION OF BANK PROGRAMS

Mr. PASSMAN. Would you please explain briefly your various programs and indicate the terms of the loans made under each where applicable?

Mr. KEARNS. Yes, sir; our equipment and services authorizations help to stimulate the economic development of the recipient countries by financing the acquisition of U.S. equipment and services required for the establishment of new industries, the expansion and modernization of existing manufacturing enterprise, procurement of jet aircraft, et cetera. Our current interest rate on these loans is 6 percent.

Normally, repayment is made in semiannual installments beginning 6 months after delivery of the equipment purchased or after completion of the project financed. These loans generally carry a term 5 to 7 years. Inasmuch as Eximbank must commit the allocation of funds authorized for each transaction, the Bank charges each borrower a commitment fee equal to one-half of 1 percent of the undisbursed balance of the authorization. Our current practice is to figure no more than 50 percent of the U.S. purchase from Eximbank resources.

Discount loans.—On July 1, 1969, our revised discount program was inaugurated. This program has as its principal feature a provision for the issuance by Eximbank of advance commitments to commercial banks to make loans to them against specific export transactions. Thus, with these assurances, the U.S. commercial bank is able to proceed with their financing of the export transactions, knowing that, if they encounter liquidity problems, they can discount the export paper with Eximbank. The interest rate Eximbank charged is one half of one percent less than the yield to the commercial banks when the export debt obligations are guaranteed or insured under Eximbank's standard medium-term guarantee or insurance programs, and 1 percent less than the yield to the commercial banks when they are not guaranteed or insured under these programs. In no event will Eximbank's rate be less than 6 percent. The maturity range is from 1 to 5 years.

Under the guarantee program we are able to offer significant assistance to exporters and their commercial banks by virtually eliminating those credit and political risks which are peculiar to export financing. The maturities of obligations covered by this program are generally 1 to 5 years and the interest charged by the commercial bank is its going rate for such transactions.

The insurance program is virtually the same except that short-term cover up to 1 year is also provided.

There is no difference in term or rate for transactions authorized under the EEF—the only difference is the somewhat lesser creditworthiness.

NEW AND REVISED PROGRAMS

Mr. PASSMAN. Would you please provide for the record a list of any new programs which have been started in the last several years with a brief explanation of each.

Mr. KEARNS. Yes, sir.

(The information follows:)

EXPORT-IMPORT BANK OF THE UNITED STATES—NEW OR SUBSTANTIALLY REVISED PROGRAMS ADOPTED SINCE MAY 1, 1969

The relending program has been completely revised to where it is now a bona fide promotional tool for the selling of U.S. goods to small and medium sized customers who lack the knowledge or sophistication to otherwise finance their purchases. Relending credits are now aimed at specific products and specific countries where extra effort is needed to bring U.S. products to the attention of the marketplace; markets where the United States has been losing ground or where it never had a decent foothold in the first place.

A cooperative financing facility has been established whereby Exim goes 50–50 with foreign financial institutions (including the overseas branches and subsidiaries of U.S. financial institutions) in the financing of U.S. exports. Thus we have been successful in actually obtaining the assistance of foreign pools of

money to support the export of U.S. goods and services throughout the world. Although this program started only last fall, there are more than 30 CFF agreements worth about $1 billion of potential exports already in the pipeline.

We are developing several new insurance policies in cooperation with the Foreign Credit Insurance Association. These new policies are designed to help U.S. exporters expand their export sales by removing certain of the risks inherent in international transactions. The new "master policy," for example, will cover political risks only or both political and commercial risks for all of a U.S. exporter's transactons made on credit terms up to 5 years. The master policy includes a deductible feature, minimum paper work requirements, and a low average premium rate.

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 and the Far East. 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 several years. Under this program, when Eximbank is requested to provide direct credits, it now requires participation to a major degree by private financial institutions.

Revised discount programs.—The commercial bank export loans program (discount program) initiated in 1966 was revised and simplified beginning July 1, 1969. 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.

Predevelopment 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 implemented 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 political risk 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 helps 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 marshaling consortium financing, when needed.

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 around the world.

Private export finance corporation (PEFCO). A joint agreement has been signed 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 percent.

Comprehensive jet aircraft financing.—A comprehensive policy and program to participate effectively in jet aircraft financing with minimum demand on Exim funding has been developed.

Seminar programs.—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 indepth 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.

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 various resources and facilities to accomplish the major purpose.

Industry dscussions.—Meetings have been scheduled with representatives of several 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. This development has significantly speeded up case handling at all levels.

PROPOSED EXIMBANK LEGISLATION

Mr. PASSMAN. Let us first talk, briefly, about excluding the receipts and disbursements of the Bank from the budget. Last year this legislation was introduced but was defeated in the House during the last days of the session. I have noticed this year new legislation has been introduced to accomplish the same purpose. If I am not mistaken, you have already had hearings before the Senate; is that correct?

Mr. KEARNS. Yes, sir; that is correct. Three days of hearings were held by the Senate Committee on Banking, Housing, and Urban Affairs at which time the question of excluding the Bank's receipts and disbursements from the budget was thoroughly examined. After hearing testimony from witnesses from both industry and government and after considerable study, it was the recommendation of the committee that the Bank's receipts and disbursements should be excluded from the budget. The Senate concurred in the committee's recommendation and passed the bill by a 66–1 vote.

Mr. PASSMAN. If I remember correctly, what is causing the problem is the annual limitation placed on budget outlays each year by Congress; is that correct?

Mr. KEARNS. Not really. The Bank justifies and is given authorization levels necessary and has the ability to borrow money to fund its operation, but it is not able to fully utilize these resources because of the net budget impact limitations placed on the Bank as a result of its inclusion in the unified budget procedures.

Mr. PASSMAN. Since the President has given certain flexibility in adjusting individual limitations, why do you have a problem now?

Mr. KEARNS. It is true that the President does have certain limited amounts of flexibility under the outlay limitations placed upon the fiscal year 1971 budget by the Congress. This flexibility, however, is very limited and must be considered in the context of the entire budget. It does very little to provide Eximbank with the necessary flexibility that it needs to adequately respond to the demonstrated needs of the U.S. export community.

Mr. PASSMAN. Is it not true the President can also request an increase in this outlay limitation, if needed?

Mr. KEARNS. Yes, sir; it is true that within certain narrow limits the President can request an increase in the outlay limitations. This again, however, must be viewed in the context of the entire Federal Government. Recent experience proves that it does not provide the flexibility which Eximbank needs to properly respond to the rapidly changing international monetary conditions.

CONTINUING CONGRESSIONAL CONTROLS UNDER PROPOSED LEGISLATION

Mr. PASSMAN. Even if you were excluded from the budget, is it not true you would still have to appear before Congress to receive approval of the level of program activity each year? So what have you gained?

Mr. KEARNS. Yes, sir; this is true. As I mentioned in my statement, even though this committee, its counterpart in the Senate, or the Congress as a whole, has not reduced Eximbank's authorization request, Eximbank has been unable to adequately respond to the demonstrated needs of the U.S. exporting community. This is because it lacks the assurance that funds will be available to satisfy commitments. The Bank lacks the flexibility necessary to meet the rapidly changing conditions in the international monetary arena. This is true because, under current restrictions, authorizations which the Congress permits us to make each year actually disburse as much as 4 to 5 years after the year of authorization, and disbursements are controlled by authorized budget impact levels each year. Thus, even though Congress sets authorization limits for a given year, during that year the Bank is also making disbursements on authorizations which the Congress directed the Bank to make in prior fiscal years. Thus, current financing policies and practices are affected, not only by the authorization limits which the Congress places upon the Bank's activities for a current fiscal year, but by previous commitments made as much as 5 years in the past. If the activities of the Bank were excluded from the computations of the budget as envisioned in the proposed legislation, it would again be possible to proceed with current programs with assurance of funding commitments with borrowings as needed. In this event the authorization levels approved through the appropriations procedure would become the governing factor in Eximbank operations.

UNIFIED BUDGET CONCEPT NOT INVALIDATED BY EXCLUSION OF EXIMBANK

Mr. PASSMAN. Would we be defeating the purpose of the unified budget concept adopted 3 or 4 years ago if we excluded the Bank from the budget?

Mr. KEARNS. No, sir; we would not. We at Eximbank believe, and we have made our case within the administration and to the Senate, and are in the process of making our case to the House, that the Export-Import Bank does not properly belong within the unified budget in the first place. Its loan programs are significantly different than other loan programs in the budget; and even within the Commission on Budget Concepts itself, there was considerable disagreement over the proper method to treat loan activities within the Federal budget. We believe that since the Federal unified budget has

been adopted, events and the actual practice of working with the budget have clearly demonstrated that the inclusion of the Export-Import Bank within the unified Federal budget is not desirable. In addition, there are several other Government-sponsored enterprises which are currently excluded from the budget. Thus, the Export-Import Bank is not really setting a precedent. Agencies such as FNMA have already been excluded from the budget, and the Export-Import Bank is simply requesting that consideration be given to its case, which we believe fully justifies the exclusion of the Bank's activities from the Federal budget total.

REDUCTION IN FISCAL YEAR 1971 NET BUDGET OUTLAYS FROM ORIGINAL ESTIMATE

Mr. PASSMAN. If I read the budget submissions from last year and this year correctly, it appears that there was a reduction in the net budget outlay figure during the year for the Bank. The fiscal year 1971 estimate submitted a year ago for budget outlays was $195 million, and in this year's budget that figure is reestimated to be $128 million. Was this decrease in outlays because the Office of Management and Budget placed a lower outlay limitation on the Bank, or was the Bank just not able to find the business that it had originally estimated it could?

Mr. KEARNS. The decrease in outlays was because the Office of Management and Budget placed a lower outlay limitation on the Bank. As can be noted from the budget document, not only did the Office of Management and Budget reduce Eximbank's fiscal year 1971 net outlays from $195 million to $128 million, they also reduced the amount of program activity the Bank was allowed to do during fiscal year 1971. This action was dictated by the desire to minimize Eximbank's impact on overall budget limitations. Unfortunately, such action runs counter to our country's need for additional exports and balance-of-payments income. Further, it ignores the constant increase in world trade volume which doubled in the last 7 years.

BIOGRAPHIES OF NEW ADVISORY COMMITTEE MEMBERS

Mr. PASSMAN. You have had several changes in the membership of the Advisory Committee since last year. Would you identify the new members and place their biography in the record?

Mr. KEARNS. Yes, sir.

(The information follows:)

EXPORT-IMPORT BANK ADVISORY COMMITTEE MEMBERS APPOINTED SEPTEMBER 1, 1970

WILLIAM BLACKIE

William Blackie is chairman of the board of directors of Caterpillar Tractor Co. He joined Caterpillar in 1939, having previously been associated for 9 years in Chicago with Price Waterhouse & Co., certified public accountants. Before election as chairman of Caterpillar in March 1966, Mr. Blackie was president for 4 years, an executive vice president for 8 years, and a vice president for 10 years. He had previously served as controller from 1939 to 1944. Born in Glasgow, Scotland, Mr. Blackie attended grammar and high school there. He studied accounting, business law, and economics at commercial colleges and the University

of Glasgow. He became a chartered accountant of Scotland in 1930 and came to the United States that year. Mr. Blackie is a trustee of the National Industrial Conference Board, a member of the board of the International Executive Service Corps, a member of the board of directors of Ampex Corp. and Shell Oil Co.

WILLIAM BOYD, JR.

William Boyd, Jr., senior vice president of the Pittsburgh National Bank, is president of the Bankers' Association for Foreign Trade, treasurer of the Pittsburgh Council for International Visitors, and executive vice president and director of the Pittsburgh International Finance Corp. Mr. Boyd is a graduate of Yale University (1937) and did graduate work at the University of Pittsburgh. He has been with the Pittsburgh National Bank since 1958, serving successively as vice president, commercial banking; vice president and manager, international banking; and since December 1968, as senior vice president and manager, international banking. He began his business career with the Gulf Oil Corp., 1938–54; and was a U.S. naval officer during World War II. From 1954 to 1956, Mr. Boyd was consultant to the president, Westinghouse Air Brake Co., and the head of William Boyd, Jr., and Associates, management consultants, from 1956 until joining the Pittsburgh National Bank in 1958. Mr. Boyd was awarded the decoration, Knight of the Order of Leopold II, by the Belgian Government in 1963.

VICTOR E. ROCKHILL

Victor E. Rockhill is an executive vice president of the Chase Manhattan Corp. and of the Chase Manhattan Bank, N.A., New York. He is also chairman of the bank's wholly owned foreign banking subsidiary, the Chase Manhattan Overseas Banking Corp. Mr. Rockhill was born in New York City. He received his B.A. from Dartmouth in 1931, and joined the Chase National Bank that year. In 1933 he was assigned to the public utilities department, where he remained until 1951. He was appointed assistant cashier in 1942, second vice president in 1947, and vice president in 1949. From 1951 to 1953 he was on special assignments. He was made deputy head of the special industries department in 1953, and retained this position when Chase National and the Bank of the Manhattan Co. merged in 1955 to form the Chase Manhattan Bank. In January 1955 he was placed in charge of the special investments department. In May 1960 he resigned as vice president of the bank in order to become president of Chase International Investment Corp., of which he had been an officer since January 1954. He rejoined the bank as executive vice president in 1964. Mr. Rockhill is also vice chairman of Chase International Investment Corp.; director of Chase Manhattan Trust Corp., Ltd., Nassau, Bahamas; director of the Nederlandse Credietbank, Amsterdam, The Netherlands; director of the Standard and Chartered Banking Group Limited; director of the Standard Bank Limited; Standard Bank of West Africa Limited, London, England; Esperance Land and Development Co., Esperance, Australia; Banque de Commerce, Antwerp, Belgium; and Chase and Bank of Ireland (International) Ltd., Dublin, Ireland. In addition, he is a member of the management committee of the United States-South Africa leader exchange program and a member of the Council on Foreign Relations.

CHARLES B. SHUMAN

Charles B. Shuman, president of the American Farm Bureau Federation, is a livestock and grain farmer near Sullivan, Ill. Mr. Shuman lives on and actively participates with three sons in the farming operations of his 270 acre farm near Sullivan. The Shumans have a commercial herd of Angus cattle. Mr. Shuman graduated with honors from the University of Illinois College of Agriculture in 1928, and in 1929 earned his master's degree in agronomy at the State university. His minor study was agricultural economics. Since graduation from college, Mr. Shuman has been active in farm bureau, cooperative and community affairs. He was elected a director of the Moultrie County Farm Bureau in 1932 and its president in 1934. He served as county president until 1938. He was elected to the Illinois Agricultural Association Board of Directors in 1941 and was named president of the IAA in 1945. He was elected to the American Farm Bureau

Federation Board of Directors in 1945 and to the presidency of AFBF in December 1954. Mr. Shuman has served as director and president of a production credit association. He was vice president and later president of a rural electric cooperative. For many years he was a director of the rural school he attended as a boy and served as president of the first consolidated district in Moultrie County. Mr. Shuman played an important part in bringing about school reorganization in his county.

SALARIES OF DIRECTORS AND OFFICERS OF THE BANK

Mr. PASSMAN. Would you also place in the record the salaries of the directors and officers of the bank?

Mr KEARNS. Yes, sir.

(The information follows:)

EXPORT-IMPORT BANK OF THE UNITED STATES—SALARIES OF OFFICERS AND DIRECTORS AS OF MAR. 31, 1971

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
Director	do	38,000
Director	do	38,000
Executive Vice President	GS-18	36,000
General Counsel	GS-18	36,000
Senior Vice President and Treasurer-Controller	GS-17	32,546
Senior Vice President—Financing	GS-17	35,801
Senior Vice President—Exporter Credits, Guarantees, and Insurance	GS-17	36,000
Senior Vice President—Planning and Export Expansion	GS-17	33,631
Secretary	GS-15	25,867

LOANS WRITTEN OFF AND DELINQUENCIES

Mr. PASSMAN. Have you had any defaults or delinquencies this past year?

Mr. KEARNS. No, during the past year we have written off no loans. I will be happy to provide for the record the delinquent loans as of December 31, 1970.

(The information follows:)

SCHEDULE OF DELINQUENT INSTALLMENTS OF 30 DAYS OR OVER AS OF DEC. 31, 1970

[Dollars in millions]

Country	Number of loans	Oldest past due installment	Total O/S balance	Delinquent installments		
				Principal	Interest	Total
Cuba	5	1958	$36.3	$24.0	$21.3	$45.3
Nigeria	1	1967	1.6	1.4	.3	1.7
Indonesia	4	1970	36.6	10.8	2.3	13.1
U.A.R.	2	1966	23.4	20.3	6.0	26.3
Other	13	1949	42.0	21.6	17.8	39.4
Total	25		139.9	78.1	47.7	125.8

LOAN RESCHEDULINGS

Mr. PASSMAN. Has it been necessary to rollover or reschedule any loans this past year?

Mr. KEARNS. Yes, we have had reschedulings during fiscal year 1970. I will be happy to submit a schedule for the record showing the amount rescheduled during fiscal year 1970.

(The information follows:)

RESCHEDULED LOAN OBLIGATIONS—AMOUNTS DEFERRED, FISCAL YEAR 1970

Country	Date of rescheduling authorized	Amount rescheduled
Africa: Sierre Leone	May 18, 1970	$1,852,491.91
Asia:		
Indonesia	Sept. 8, 1969	12,837,899.24
Korea	Sept. 22, 1969	675,000.00
Kuwait	Feb. 25, 1970	10,000,000.00
Taiwan	Oct. 6, 1969 and Nov. 10, 1969	747,500.00
Total Asia		24,260,399.24
Europe: Spain	Feb. 20, 1970	3,832,000.00
Latin America:		
Argentina	May 25, 1970	3,475,000.00
Bolivia	Feb. 16, 1970	377,760.00
Haiti	May 11, 1970	218,858.00
Mexico	May 25, 1970	718,750.00
Total Latin America		4,790,368.00
Grand total		34,735,259.15

BANK WORLDWIDE ACTIVITY

Mr. PASSMAN. How many countries are you now presently doing business with?

Mr. KEARNS. In fiscal year 1970 Eximbank transacted business in support of U.S. exports to 143 overseas markets. We usually talk about sales to markets rather than countries, because there is no precise definition of a country. For example, we regard Hong Kong as a market—or country, if you will—even though official U.S. representation there is through a consulate general which in turn is technically subordinate to our Embassy in London. We have also financed exports to multinational buyers, such as Scandinavian Airlines System and the European Atomic Energy Authority.

REASON FOR DECREASE IN PROGRAM ACTIVITY LEVEL FROM FISCAL YEAR 1971 TO FISCAL YEAR 1972

Mr. PASSMAN. What accounts for the decrease in program activity of $442,543,000 in fiscal year 1972?

Mr. KEARNS. This decrease in program activity is not what the Bank requested. The Export-Import Bank's initial request was reduced by the Office of Management and Budget. I assume the major reason that it was reduced was because of the effect the levels of program activity which we requested would have had on outlays in fiscal year 1972, and for the next few years. Thus, even though this activity represents sales for U.S. exporters and will be repaid both to the Bank and to the U.S. exporters and commercial banks, and in turn help our U.S. balance of payments, the decrease is still there. Therefore, because of the net outlay considerations of the Office of Management and Budget, Eximbank's program activity was reduced.

CONTRIBUTION OF BANK TO U.S. BALANCE OF PAYMENTS

Mr. PASSMAN. You indicate in your justifications that the effect of Export-Import Bank transactions on the balance of payments will be $2,315 million in fiscal year 1972. This is broken down into $1,248 million direct contribution and $1,067 million indirect contribution. Would you please explain the difference between direct and indirect contributions?

Mr. KEARNS. Eximbank's direct contribution to the balance of payments is the dollars actually received by the Bank itself from overseas obligors and from the sales of loans to overseas buyers. In fiscal year 1972 it is estimated that repayments of principal and interest, and overseas sales of loans will bring back into this country the amount of $1,248 million. Also, because of activities under Eximbank's guarantee and insurance programs, cash payments on shipments, and repayments to commercial banks and exporters on loans, guaranteed or insured by Eximbank, an additional $1,067 million will be added to our country's balance of payments in fiscal year 1972. This latter amount is the result of export sales which would not have been made without Eximbank support.

POLICY REQUIREMENTS FOR 50-PERCENT EXTERNAL SOURCES

Mr. PASSMAN. Is the general policy of the Bank still in effect which requires that 50 percent of the money on a loan come from sources other than the Bank?

Mr. KEARNS. Yes. This is our general policy, and we adhere to it as consistently as possible.

The policy perhaps was born of necessity. The Bank's resources available for the direct financing of exports have been constrained by inclusion of the Bank's activities in the unified budget, and simply have been inadequate to support the full needs of the Nation's exporters. By combining Eximbank's resources with those of commercial banks, we effectively have been able to double the resources available to those applying for Eximbank assistance.

Importantly, however, the policy has given birth to even greater achievement. We have introduced scores of commercial banks to export financing. We have made it possible for U.S. commercial banks to gain larger numbers of foreign clients, leading to a sizable increase in the volume of international transactions which take place without Eximbank participation. We have been able to moderate the interest rate charged to overseas purchasers of U.S. goods and services. And, we have been able to fulfill our obligation to the Congress, which has stated in our statutes that Eximbank should supplement and not compete with private sources of financing.

This program has been eminently successful. However, we are now at maximum effectiveness unless our funding capability is improved. We have reached the limit on stretching our cash.

Mr. PASSMAN. Have there been any exceptions to this general policy over the last year?

Mr. KEARNS. Yes, there have been several such exceptions. On the one side, we have supported through direct loans more than 50 percent of the financed portion when the transaction had been committed

before this policy was adopted or when the transaction in our judgment appeared to be lost otherwise to foreign competition. On the other side, however, the greatest number of exceptions to the policy have occurred when we supported through direct loans something less than 50 percent of the financed portion. Aircraft financing provides a notable example of Eximbank assisting in securing the sale while putting up less than half the financed portion.

EMERGENCY FOREIGN TRADE LOANS

Mr. PASSMAN. In the justifications, you indicate that under the regular loan program for fiscal year 1972, $50 million is provided for contingency for emergency credit authorizations. Would you give examples of possible emergency credit authorizations which could use these funds?

Mr. KEARNS. This contingency is provided for authorizations for credits to facilitate and continue the orderly flow of U.S. goods and services to countries which temporarily find themselves in exchange difficulties. Our last emergency foreign trade authorization was made in fiscal year 1969, when a $50 million line of credit was authorized in favor of Australia. Other countries for which emergency foreign trade credits have been authorized in the past include Canada, the United Kingdom, Bolivia, and Mexico, among others.

PRELIMINARY COMMITMENT PROCEDURE

Mr. PASSMAN. How has your preliminary commitment procedure worked out this past year?

Mr. KEARNS. We believe that the preliminary commitment procedure has been an outstanding success. During the first year of its operation, preliminary commitments were issued to some 200 firms involving over 250 projects involving potential U.S. exports to 95 countries. To date 411 preliminary commitments have been approved involving U.S. exports of $7.6 billion, and 100 of these have been converted to direct credits involving more than $2 billion in U.S. export sales. Currently, 213 preliminary commitments are outstanding which represent potential additional exports in excess of $4.6 billion.

LOAN REPAYMENT EXPERIENCE

Mr. PASSMAN. How has your loan repayment experience been over the past years?

Mr. KEARNS. Our loan repayment experience has been excellent. Since its inception Eximbank has had only $3.7 billion in net loans written off and as of Dec. 31, 1970, had protracted defaults of only $78.1 million in principal.

CHANGES IN GUARANTEE AND INSURANCE PROGRAMS

Mr. PASSMAN. You indicated several changes have been made in your guarantee and insurance programs. Would you please indicate what these changes have been.

Mr. KEARNS. During the past year Eximbank has made a number of changes in its guarantees and insurance programs in order to reduce

paperwork, speed up processing time, and reduce the cost of our coverage to the exporting community. At the beginning of 1970, we announced a number of proposed improvements in the FCIA insurance program, most of which have now been implemented, including new policy forms, the prequalification of foreign buyers, and an expanded campaign to acquaint the U.S. exporter with our services.

In addition to the standard FCIA policies which have been offered to exporters in the past, several new types of policies are now available.

First, we have the master comprehensive policy, which provides blanket coverage of both political and commercial risks on all of an exporter's eligible short- and medium-term sales, with a deductible provision and a high discretionary authority designed to minimize paperwork and processing delays.

Second, there is the master political risk policy, which provides blanket coverage of 70 percent of losses from political risks only for all of an exporter's eligible credit sales on terms up to 5 years.

And now we have a small business policy, for businesses which are newcomers to the export trade and exporters having a modest sales volume, which provides comprehensive cover for either all short- and medium-term sales or for all sales to specific foreign buyers.

Each of these can provide automatic coverage under a single master policy for substantially all of an exporter's sales to overseas buyers on credit terms ranging up to 5 years.

Eximbank is in the process of establishing a comprehensive prequalification of actual and potential foreign buyers of U.S. products for given amounts of export credit. This prequalification process, when fully implemented, will make it possible for FCIA, including branch offices, and for U.S. commercial banks to an increasing extent to give on-the-spot approval to commit Eximbank to insurance and guarantees for sales to specific foreign buyers.

Eximbank has made a determined effort to enlist foreign capital in financing U.S. exports by offering its repayment guarantee to non-U.S. financial institutions and, in connection with large projects, has agreed to cover local cost loans made in non-U.S. currencies, up to a maximum of 15 percent of the U.S. procurement, when such support is necessary to get the export for the United States. Under the commercial bank exporter guarantee program, Eximbank has made increasing use of its ability to provide political risk cover only, where appropriate, at a reduced premium rate; and has underwritten a greatly increased volume of export sales under the guarantee and insurance programs, using both its regular authority and the export expansion facility designed to handle transactions which offer a sufficient likelihood of repayment in accordance with the long-term commercial interests of the United States. Eximbank has made real progress in reducing the time required for processing applications and has actively sought the suggestions of commercial banks and U.S. exporters for further improvement.

EXPORT EXPANSION FACILITY ACTIVITY

Mr. PASSMAN. How much is provided in fiscal year 1972 for the export expansion program? Last year a table was included in the budget showing the level plan for this activity but this year I do not find such a table.

Mr. KEARNS. It is almost impossible to estimate the amount of activity which will be charged to the export expansion facility (EEF) during any one fiscal year. As you know, the facility provides that loans which in the judgment of the Board of Directors have only a sufficient likelihood of repayment, rather than reasonable assurance of repayment, are charged to the EEF programs. Obviously then things such as changing world political and economic conditions will affect the credit ratings of both countries and companies. Since these changes are by their nature largely unpredictable, it is almost impossible to forecast in advance how much would be charged to the EEF program. In fiscal year 1970, authorization under the EEF program consisted of $93.2 million in loans and $156.9 million in medium term guarantees and insurance. Total charges outstanding against the $500 million EEF limitation were $168.6 million at June 30, 1970.

Mr. PASSMAN. This program allows the Bank to make loans or guarantees to organizations that would not ordinarily qualify for such loans; is that correct?

Mr. KEARNS. Yes, sir, that is correct. These are not soft loans. There is no relaxation of terms or interest rates under the EEF program. The only difference between the loans charged against the EEF and the Bank's normal business is that loans charged under the EEF cannot meet the reasonable assurance of repayment criteria which is met by the Bank's normal loans.

MILITARY CREDITS

Mr. PASSMAN. I notice one of the military credits extended to Australia in fiscal year 1970 was at an interest rate of 4¾ percent while most of the other credits were 7⅞ percent. Why did you provide this low interest rate to Australia?

Mr. KEARNS. This loan was part of an overall commitment made several years ago. Current military commitments are authorized at the rate at which Eximbank is paying for funds during the month of authorization from the Treasury, or 6 percent, whichever is higher.

Mr. PASSMAN. As I understand it, the Bank is restricted from providing military credits to underdeveloped nations, is that correct?

Mr. KEARNS. Yes sir; that is correct. By statute, the Export-Import Bank has been prohibited from financing the export of military goods and services to any less developed countries since June 30, 1968.

TRADE WITH COMMUNIST COUNTRIES

Mr. PASSMAN. Has the President made any determinations concerning the extension of credit to Communist countries this past year?

Mr. KEARNS. No.

Mr. PASSMAN. Please update the table appearing on page 125 of last year's hearings showing the amount of trade between the United States and various Communist countries.

(The information follows:)

Table B.—U.S. Exports to and Imports From Communist Areas in Eastern Europe and Asia, 1963–69 and January–September 1970

[THOUSANDS OF DOLLARS]

COUNTRY	1963	1964	1965	1966	1967	1968	1969	Jan.–Sept. 1970
	EXPORTS, INCLUDING REEXPORTS							
TOTAL	166,817	339,926	140,010	197,738	195,260	215,024	249,238	253,024
EASTERN EUROPEAN AREAS	166,814	339,923	140,009	197,737	195,258	215,024	249,236	253,023
ALBANIA	(1)	19	8	165	56	8	18	1
BULGARIA	136	5,020	3,613	3,631	4,219	4,036	4,845	7,678
CZECHOSLOVAKIA	9,791	11,338	27,685	37,336	19,155	13,956	14,351	16,338
EAST GERMANY	6,403	20,211	12,413	25,152	26,329	29,047	32,373	25,279
ESTONIA						2		2
HUNGARY	17,371	13,753	9,327	10,053	7,570	11,194	7,252	19,374
LATVIA	2,364	1,807						
LITHUANIA	333					1		
POLAND	108,936	138,066	35,417	52,988	60,825	82,375	52,694	57,553
ROMANIA	1,249	5,156	6,385	26,656	16,795	16,657	32,334	46,218
U.S.S.R.	20,241	144,553	45,161	41,725	60,308	57,725	105,547	80,580
COMMUNIST AREAS IN ASIA	[2]3	[2]3	[2]1	[2]1	[2]2		2	1
CHINA, INCLUDING MANCHURIA	[2]3	[2]3	[2]1	[2]1	[2]1			
OUTER MONGOLIA		(3)			1		2	1
NORTH KOREA								
NORTH VIETNAM	(3)	(3)	(3)					
	GENERAL IMPORTS							
TOTAL	85,142	102,305	141,590	182,179	179,814	200,755	197,819	169,072
EASTERN EUROPEAN AREAS	81,459	98,516	137,495	178,668	177,224	198,429	195,457	168,429
ALBANIA	117	102	113	103	335	283	396	119
BULGARIA	1,195	1,177	1,665	2,529	2,814	3,731	1,593	1,835
CZECHOSLOVAKIA	10,369	12,706	16,741	27,695	26,241	23,756	24,063	17,115
EAST GERMANY	3,158	6,655	6,537	8,194	5,647	5,933	8,018	6,579
ESTONIA	6	96	13	113	55	67	20	57
HUNGARY	1,581	1,693	2,092	2,535	3,884	3,848	4,077	4,438
LATVIA	810	418	12	18	34	16	9	16
LITHUANIA	15	4	33	8	32	5	2	(1)
POLAND	43,119	54,202	65,561	82,948	90,960	96,871	97,835	71,704
ROMANIA	789	1,272	1,856	4,655	6,176	5,553	7,965	10,019
U.S.S.R.	20,330	20,160	42,592	49,414	41,046	58,365	51,473	56,547
COMMUNIST AREAS IN ASIA	3,653	3,789	4,094	3,511	2,590	2,326	2,362	643
CHINA, INCLUDING MANCHURIA	264	477	453	102	181	(1)	24	1
OUTER MONGOLIA	3,389	3,312	3,631	3,409	2,409	2,326	2,338	642
NORTH KOREA								
NORTH VIETNAM	(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, 1955, 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, Rhmania, 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 Assest Control Regulations issued December 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 except for imports of Chinese goods for non-commercial purposes which, are permitted by general license. 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 December 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.

Source: "Export Control", 94th Quarterly Report, 4th Quarter 1970, Table B, U. S. Department of Commerce.

BANK SUPPORT OF U.S. EXPORTS TO YUGOSLAVIA

Mr. PASSMAN. I notice we are still extending credit to Yugoslavia under a previous Presidential determination. What was the total Bank program for Yugoslavia last year?

Mr. KEARNS. During fiscal year 1970, credits totaling $5.2 million were authorized in favor of U.S. exports to Yugoslavia. The amount of $11.6 million in medium term guarantees and insurance was also authorized, and shipments under short term insurance policies totaled $346,000.

Mr. PASSMAN. What is the outstanding balance of loans to Yugoslavia as of last year?

Mr. KEARNS. As of June 30, 1970, Eximbank had $70.3 million in loans outstanding to Yugoslavia.

SALES OF LOANS

Mr. PASSMAN. You indicate you plan to sell loans in fiscal year 1972 for $400 million. Are these sales made with or without recourse?

Mr. KEARNS. They can be either with or without recourse but are generally sold with recourse.

REQUEST FOR INCREASE IN BANK COMMITMENT AND FRACTIONAL RESERVE AUTHORITY

Mr. PASSMAN. Would you please explain what authority you are requesting to be increased this year and to what level?

Mr. KEARNS. The bill which the Senate has passed and which is pending before the House authorizes an increase of the $13.5 billion on overall commitment authority to $20 billion, and an increase to $10 billion in the $3.5 billion authority to issue guarantees and insurance charged at 25 percent against the overall commitment authority.

EXTENSION OF THE LIFE OF THE BANK

Mr. PASSMAN. If I am not mistaken, you are also asking that the life of the Bank be extended. What length of time is involved in this extension?

Mr. KEARNS. We are requesting a 3-year extension of the life of the Bank from the present expiry date of June 30, 1973 to June 30, 1976. This will provide the Bank with a 5-year operating period from the time of the current review by the Congress in connection with the pending legislation. This is consistent with the past actions of Congress in providing the Bank with a 5-year life at the time its commitment authority was increased.

REASONS FOR DECREASE IN ORIGINAL ESTIMATES OF FISCAL YEAR 1971 NEW PROGRAM ACTIVITY

Mr. PASSMAN. I note that in this year's justification your most recent estimate for fiscal year 1971 program activity is quite a bit below that which you estimated last January. Last year you estimated that program activity for fiscal year 1971 would be $4,075 million and this year

you reestimate that total to be only $3,203 million. Did you overestimate your anticipated new business last year? Please tell us what accounts for the large difference in estimates for the fiscal year 1971 program.

Mr. KEARNS. The reduction in the authorization levels for fiscal year 1971 was certainly not Eximbank's idea. The program activity was reduced by the Office of Management and Budget presumably as a measure to hold down the Export-Import Bank's outlays for fiscal year 1971 and fiscal year 1972. This is an example of the problem that I was discussing earlier where although Congress authorizes the Bank to do a certain level of business, the Office of Management and Budget will not permit the Bank to attain those levels because of the impact this would have in the current and succeeding fiscal years in net budget outlays.

REASON FOR DECREASE IN FISCAL YEAR 1972 RECEIPTS

Mr. PASSMAN. Would you please explain the anticipated decrease in receipts reflected in fiscal year 1972 below fiscal year 1971?

Mr. KEARNS. The decrease in receipts in fiscal year 1972 is because our asset sales are finally catching up with us. Asset sales are merely a device of receiving today what we would otherwise receive tomorrow. During fiscal year 1969, fiscal year 1970, and also fiscal year 1971, a substantial amount of sales of assets have been required of the Export-Import Bank in order to keep its net outlays at the level set by the Office of Management and Budget. Most of the receipts that were sold in these fiscal years would have become due in fiscal year 1972 and beyond. Thus, now in 1972 and in future years we are paying the price for lower outlays in prior fiscal years.

EXPLANATION OF AUTHORITY TO SPEND AGENCY DEBT RECEIPTS

Mr. PASSMAN. Would you provide an explanation of the $225 million item in the budget entitled "Indefinite Authority to Spend Agency Debt Receipts"?

Mr. KEARNS. "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 purposes.

"Budget Authority" for any year represent 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 $225 million represents the Bank's estimate of additional budget authority which would be needed to cover fiscal year 1972 obligations. However, the exact amount, if any, will not be determinable until the end of fiscal year 1972. 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 1972 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 $225 million 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.

BRAZILIAN STEEL

Mr. PASSMAN. In an article in Business Week on February 13, 1971, the World Bank was accused of trying to make loans to finance the expansion of the Brazilian steel industry which had been previously handled by the Export-Import Bank. It went on to say that a World Bank loan might shut out U.S. suppliers. Would you please comment on this article.

Mr. KEARNS. First, it is important to note that I was not the source of any information contained in that article; and second, I would like to say that it is unfortunate that the areas of potential cooperation between Eximbank and the World Bank cannot gain the greater attention of the press.

At the time the article appeared, there was a proposal under consideration for the so-called "joint financing" by the World Bank and the national credit agencies of projects in the Brazilian steel sector. We at Eximbank doubt seriously that the "joint financing" technique is either appropriate for our Bank or of benefit to U.S. exporters. In the intervening weeks, however, we believe we have worked out a program of cooperation under which both IBRD and Eximbank, as well as the Inter-American Development Bank, can assist Brazil in its steel expansion program and U.S. exporters can gain a fair share of the business.

NEED FOR SHORT TERM EXPORT SUPPORT

Mr. PASSMAN. Last May you made a report to the House Banking and Currency Committee concerning the possible need to financially support short term exports. Could you tell the committee if anything has been done to implement such a program?

Mr. KEARNS. Unfortunately, nothing has been done by Eximbank to support with direct loans the Nation's short term export business—simply because the legislation we seek to make such support possible failed of enactment last December in the House of Representatives. The need is still there, and we are prepared to launch immediately a program of significant magnitude if the legislation passes. We have good evidence that such a program can be effective in recapturing a sizable part of our lost short term business, especially in agricultural products, chemicals, fertilizers, steel mill products, and the like. We, therefore, are pressing again this year for congressional approval of the bill to remove Eximbank from Federal budget calculations.

INCREASE IN PERSONNEL IN FISCAL YEAR 1972

Mr. PASSMAN. You plan to add 25 additional people in fiscal year 1972. Would you please explain the need for this increase and indicate what the new positions will be?

Mr. KEARNS. These new positions will be distributed among the various offices of the Bank, and although our budget gross positions do increase by 25, our end-of-year ceiling will only increase by 15, from the 380 budgeted for the end of fiscal year 1971 to 395 at the end of fiscal year 1972. We anticipate that the increased activity under the Bank's program resulting in expanding workloads will more than offset the increases realized by increased operating efficiencies, thus resulting in only a small increase of personnel. Total administrative expenses still remain at only four-tenths of 1 percent of the total loans disbursed.

REPRESENTATION ALLOWANCE

Mr. PASSMAN. Why are you requesting a $6,000 increase in entertainment allowances for fiscal year 1972?

Mr. KEARNS. Because of the increases in activity of the Bank, increasing contacts with U.S. exporters, commercial bankers, and foreign obligors, and increases in travel. The nominal cost of normal entertainment commensurate with these activities has also increased. In fiscal year 1970 $11,511 of the $12,000 limitation was utilized.

Mr. PASSMAN. You indicate some of the directors paid for some entertainment expenses out of their own pockets. Do you have any idea what this amounted to?

Mr. KEARNS. Not offhand. I think I mentioned during an earlier appearance before this committee, this is one of the privileges of the job. But I know we have all done it at times.

EXIMBANK SEMINARS

Mr. PASSMAN. Why do you find it necessary to conduct seminars to inform the U.S. exporting community of Export-Import Bank services? Don't you feel the Bank's services are well known to all exporters now?

Mr. KEARNS. No, we do not. On every hand it is painfully apparent that most people in business and finance have taken little or no interest in exports, and Eximbank has traditionally avoided public attention. We are reminded constantly that knowledge of the role Eximbank can play in assuring flexibility and continuity of exports is essential to achieve the marketing effort needed to achieve our export goals. We, too, must present our case to the interested public. Too, Eximbank constantly is changing its programs to meet the ever-changing credit demands of the world marketplace, and it is important that the export community keep abreast of those changes.

Our seminar programs have made a great contribution to interesting more businesses and banks in sales abroad. We believe they are essential to our goal of greatly expanded exports, and we intend to continue the program.

PAY COST INCREASE IN FISCAL YEAR 1972

Mr. PASSMAN. Will additional funds be needed in fiscal year 1972 to cover pay increases?

Mr. KEARNS. Yes; additional amounts approximating $373,000 will be needed in fiscal year 1972 to cover payroll costs incurred due to the recent pay raise in January.

EFFICIENCIES RESULTING FROM BANK REORGANIZATION

Mr. PASSMAN. You indicate in the budget that a reorganization designed to provide increased efficiency will be or has been implemented by the Bank. Would you please explain this reorganization?

Mr. KEARNS. I would be most happy to. The reorganization referred to has been implemented. It involved a changing of the previously geographically oriented organizational structure of the Bank into a functional organization. This type of organizational structure permits simultaneous processing of applications regardless of the geographic area in which the applications fall into. All aspects of the credit application or guarantee application are examined at one time, thus providing the fastest possible service to the exporter, the foreign obligor, and the U.S. commercial bank. We believe that the efficiencies inherent in this organizational structure are and will enable the Bank to provide better and faster services to the U.S. exporting community and to handle the rapidly increasing volume of work with a lower increase in staff than would otherwise be the case.

Mr. PASSMAN. Mrs. Reid?

INCREASE IN EXPORTS SUPPORTED BY BANK—FISCAL YEARS 1969–72

Mrs. REID. Thank you, Mr. Chairman. The Bank's program activity has increased from $2.9 billion in fiscal year 1969 to an estimated $5.9 billion in fiscal year 1972. Would you give us your comments on this rate of growth and should we expect it to continue?

Mr. KEARNS. The rate of growth in the amount of export sales supported by the Bank in 1970 can be attributed in part to the adoption of our participation financing policy, wherein we require our borrowers to obtain a portion of their needed financing from private sources. With this policy, we are able to gain leverage with the use of our funds and thus support a greater volume of export sales.

We will not see another 90-percent increase in the sales supported by Eximbank this year, principally because the amount of direct lending which the Bank can supply in the participation financing program has not been materially increased over last year. We do anticipate a noteworthy increase, however, and we are predicting still another increase next year if additional cash resources are made available to Eximbank.

Annual increases are necessary just to keep pace with the normal increase in world trade. What we are seeking are incremental increases over normal growth so that we can attain an export volume adequate for our balance-of-payments needs.

LOSSES UNDER EXPORT EXPANSION FACILITY

Mrs. REID. What has your loss experience been so far for financing done under the export expansion program?

Mr. KEARNS. Well, of course the program is still rather new to have developed any significant statistics on losses. Nonetheless, we have experienced no losses on export expansion facility loans or guarantees and we currently have paid net claims of about $293,000 on insurance policies issued under the EEF. This amount was paid mostly for claims of exchange delays and we expect to recover much of this amount as we usually do in such cases.

FINANCIAL EXPENSE DISCLOSURE

Mrs. REID. In checking the budget appendix section for the Export-Import Bank (page 902) under the program and financing schedule there is an item called "Interest on borrowings" and also "Interest on participation certificates and debentures." Since both of these obviously represent interest on borrowings would you explain the difference between the two and why they are shown separately?

Mr. KEARNS. The figure shown for interest on borrowings represents the interest that the Export-Import Bank pays to the U.S. Treasury. The item interest on participation certificates and debentures is the interest that the Export-Import Bank pays on this type of debt instrument to provide lenders. These are shown separately and they provide a fuller disclosure of the amounts of interest paid by the Export-Import Bank on its various types of debt instruments.

EFFECT OF PROPOSED INCREASE IN COMMITMENT AUTHORITY ON BANK BORROWINGS

Mrs. REID. What affect will the proposed increase in the statutory ceiling on the Bank's outstanding loans, guarantees, and insurance have on the Bank's total borrowing authority and authority to spend agency debt receipts?

Mr. KEARNS. The increases will not change the Bank's statutory borrowing authority with the Treasury; this will remain at $6 billion. However, the increases will result in increasing the potential for the Bank to borrow from the private market and use these borrowings to finance its operations. Obviously these borrowings would not be done all at once but would be done only as the Bank needs the funds to finance its loan programs and only after such program levels have been approved by the Congress. It should be borne in mind that world trade increases each year at an average annual rate of 14 to 15 percent; hence if the United States and Eximbank are to participate, the increased levels are necessary.

BANK LENDING AND BORROWING RATES

Mrs. REID. Would you furnish for the record: (1) the current interest rate for loans made by the Bank; and (2) a schedule showing the source of all borrowings by the Bank and the amount and interest

rate for each source for fiscal years 1969, 1970, and 1971 through March 31.

Mr. KEARNS. The Bank's current lending rate is 6 percent.

I will be pleased to place in the record a schedule showing the various types of borrowings and their respective balances as of June 30, 1969, June 30, 1970, and borrowings this fiscal year through March 31, 1971.

(The information follows:)

EXPORT-IMPORT BANK OF THE UNITED STATES, SCHEDULE OF BORROWINGS OUTSTANDING

[Dollar amounts in millions of dollars]

Interest rate	June 30, 1969	June 30, 1970	Mar. 31, 1971
U.S. Treasury:			
2⅜ percent [1]	$12.8	$11.0	$9.1
3 percent	451.0	451.0	27.8
3⅛ percent [1]	44.0	44.0	0
3½ percent [1]	0	0	30.4
4¾ percent [1]	0	0	150.2
5⅛ percent [1]	15.3	6.0	0
5¼ percent [1]	3.2	4.7	1.8
5⅜ percent [1]	85.5	64.0	32.9
6 percent	.2	.2	0
6⅛ percent	.1	0	0
6⅜ percent	108.1	108.1	0
6⅝ percent	0	125.0	0
6¾ percent	0	408.9	0
7⅛ percent	0	281.9	0
7⅜ percent	0	81.6	0
Total Treasury	720.2	1,586.4	252.2
Participation certificates:			
4 percent	.5	0	0
4¼ percent	.1	0	(2)
4½ percent	1.1	.5	.4
4⅝ percent	250.0	(2)	(2)
5 percent	395.6	391.5	137.8
5 1/10 percent	250.0	250.0	250.0
5⅛ percent	150.0	150.0	150.0
5⅜ percent	175.0	175.0	175.0
5½ percent	56.6	21.7	12.3
5⅞ percent	5.0	0	0
6¼ percent	30.0	4.1	1.7
6⅝ percent	500.0	500.0	500.0
Total participation certificates	1,813.9	1,492.8	1,227.2
Debentures: 6 3/10 percent	400.0	400.0	400.0
Short-term discount notes: 5.765 [3]	258.1	0	0
Short-term notes:			
6 percent	0	0	1,000.0
5⅞ percent	0	0	500.0
Total short-term notes	0	0	1,500.0
Total borrowing outstanding	3,192.2	3,479.2	3,379.4

[1] All borrowings at lower than regular monthly Treasury rates were made to offset special national interest loans, not normal Eximbank lending.

[2] Less than 50,000.

[3] Average cost of cumulative sales-bond equivalent basis.

CHANGES AND INNOVATIONS IN BANK PROGRAMS IN FUTURE

Mrs. REID. Do you expect any major changes in programs or services offered by the Bank in the years ahead?

Mr. KEARNS. Yes, several. First, if the legislation removing Eximbank from computations of the budget is approved by the Congress, we can anticipate the initiation of programs to increase substantially the support of exports moving on short-term financing. Second, we believe we have reached an agreement with the Foreign Credit In-

surance Association which should lead to major improvements in the export credit insurance field. Third, we have just participated in the launching of PEFCO, the Private Export Funding Corporation, which promises, with Eximbank support, to provide new dimensions to export financing.

The world marketplace is anything but static. New markets constantly are developing, and the buying habits in the traditional markets are changing. The U.S. export "mix" is shifting to greater sales abroad of the high-technology capital goods which require credit terms. At the same time, we see ways of expanding our sales abroad of basic commodities. The world liquidity situation changes almost monthly to reflect the differing conditions in the different countries at different times. We therefore believe that Eximbank should be anything but static. We believe strongly we must continuingly tailor our programs to the international marketplace and the needs of our exporters. This is certain to mean major changes as we go along.

EXIMBANK COMPETITIVE POSITION

Mrs. REID. Are there any 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. Yes, but in longer term financing we have found usually that in such instances the other countries were offering better terms by combining development assistance, or AID type, financing along with normal export financing; the French call it "credit mixe." Other countries, too, use this technique. On balance, however, we believe Eximbank terms for those transactions requiring medium-term financing are reasonably competitive with those offered by the Eximbank type institutions in the other countries. In the short-term field our facilities are totally inadequate. We hope to rectify this situation if we are removed from the budget and can look with assurance of funding the credit volume authorized by the Congress.

FISCAL YEAR 1972 ESTIMATED NET INCOME

Mrs. REID. I understand 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 1972?

Mr. KEARNS. In fiscal year 1972 we estimate that our net income will be at least $117.4 million. After a payment of an estimated $50 billion in dividends to the U.S. Treasury the budget estimates for retained earnings for June 30, 1972, are $1.4 billion.

POSITION OF BANK ON ANNUAL BUDGET REVIEWS

Mrs. REID. What is the Bank's position regarding these annual legislative budget reviews and the process for appropriation?

Mr. KEARNS. The Export-Import Bank feels that it is desirable and necessary that an annual legislative budget review be conducted by the Office of Management and Budget and the Congress as it has been in the past. In fact, in the legislation which is now pending before the House and which has passed the Senate there is a specific provision for

transmitting annually to the Congress a budget for program activity and for administrative expenses of the Bank. The Bank supports this legislation. We believe that it is in the best interest of the U.S. Government, the U.S. Congress, and the general public that the Bank's activities be fully disclosed to the American people and that it's activities be subject to annual congressional review. All activities should be fully justified to the satisfaction of the Appropriations Committee.

BANK SUPPORT OF AGRICULTURAL EXPORTS

Mrs. REID. Last year's testimony showed that increased emphasis was being placed on efforts to support exports of agricultural commodities. Are these efforts continuing and how successful have you been so far?

Mr. KEARNS. We are continuing our efforts to support U.S. agricultural exports. As I mentioned earlier, we have an officer of the Bank, a vice president, who has an extensive backing in agricultural exports directing our efforts in this field. I can give you several specific examples in your State of Illinois. In a recent program of visiting six different locations in the State, a team from Eximbank presented in-depth seminars on the new and strengthened programs of Eximbank. Recognizing that Illinois is the No. 1 export agricultural product State in the United States, the team visited the headquarters of the Illinois Agricultural Association and explained the Bank's programs relating to agriculture to the board of directors of that organization.

Shortly thereafter, and as a result of that meeting, a delegation from the Illinois farm product exports, visited the Bank in Washington to discuss, in detail, financing for hog exports. We anticipate encouraging such contact with agricultural export interests in other States.

As to what has been done, the revised discount loan program introduced in July 1969, has greatly assisted grain exporters and their banks. In fiscal year 1970, 48 such loans were authorized for agricultural transactions, for an aggregate value of $110.7 million. This was nearly 20 percent of all discount loans authorized in that period.

Under the program, discount loans to commercial banks have underpinned foreign sales of corn, wheat, grain sorghum, cotton, barley, tobacco, and sheepskins. Overseas customers have been located in Belgium, Holland, Switzerland, Italy, United Kingdom, France, West Germany, the Philippines, Taiwan, Hong Kong, Japan, Singapore, and Korea.

Eximbank's direct loans to overseas customers have financed agricultural products every year for the past two decades. Most of this business has been in cotton and livestock, but other products have been assisted as well.

Furthermore, the Eximbank guarantee program is available under highly attractive conditions for farm product exports. In fiscal year 1970 foreign sales of cotton to such markets as Taiwan and Korea and shipments of livestock to Mexico enjoyed this Eximbank coverage. Over the years Eximbank guarantees have supported a variety of farm commodities, including wheat, corn, soybeans, and poultry.

The export credit insurance program conducted since 1962 by Eximbank and the Foreign Credit Insurance Association, which is a group of 50 major insurance companies, has been heavily utilized by ship-

pers of agricultural commodities. A number of companies have built up their overseas sales substantially under the program. Export insurance policies, issued directly to exporters, cover both commercial and political risks on credits extended to foreign buyers. Most of the insurance policies issued on farm products have covered sales of cotton and grains, though shipments of livestock, rice, soybeans, poultry, and poultry feed have also enjoyed these benefits.

Mr. PASSMAN. Mr. Riegle?

JAPAN AND GERMANY AS WORLD TRADERS

Mr. RIEGLE. Thank you, Mr. Chairman. Why is it that Japan and Germany have been able to capture a sizable share of the world market for goods and services since World War II? What are they doing that we should be doing?

Mr. KEARNS. Both Japan and Germany were major international traders before World War II. Immediately following World War II, the United States became the almost singular source of supply in world trade; and Germany and Japan and other of the European nations devoted their significant energies to reconstruction. In the late fifties, however, both countries had rebuilt their industrial strength and undertook to regain their traditional positions in world trade. Now, of course, they again are major competitors in the world marketplace with the United States.

The United States is still the world's largest exporter, but our share of the market has declined steadily for the past 20 years. Japan and, to a slightly lesser degree, Germany must trade or die. Faced with that choice it is only natural the country would pursue its trade vigorously. U.S. traders, on the other hand, can gain considerable profit and satisfaction from our large domestic market; and most do not feel the necessity to pursue international trade in the same way as their foreign counterparts. We believe it important to change this attitude, and export promotion has become the principal goal of Eximbank.

Our research convinces us that financing is a key factor. Assurance of payments for products or services is a strong motivating force for U.S. business, and increasingly the ability to provide competitive financing brings the overseas market into clear understandable focus—understood and desirable.

U.S. POSITION IN WORLD EXPORT MARKET

Mr. RIEGLE. Are we being priced out of the world market? Has there been a general deterioration in our world export position as a result of high taxes, high labor cost and/or high interest rates?

Mr. KEARNS. For the past 13 years at least we have heard that the United States is pricing itself out of the market. Of course, our prices have gone up, up too rapidly, over this period. But at the same time, practically all countries with which we compete internationally also have experienced inflation, and their prices, too, have been rising. The most important thing to remember, though, in this context is that goods and services do not move on price alone. Good constant marketing is a key sales factor. Better quality often is the key sales factor. And there are the factors of availability, warranties, parts policies,

after-sale servicing and, importantly, financing. It is this latter factor which is becoming increasingly crucial to making the sale, and it is this factor that Eximbank constantly is improving its capabilities to support.

Our position in the world market has deteriorated, statistically. The rebuilding of our competitors has led more directly to this statistical deterioration, however, than have the rising prices in our country. Furthermore, I would predict that we now can hold our statistical share of world purchases, if indeed we cannot begin to increase our share of world trade substantially.

Confidence in the rewards of extra sales can do much to insure a constant and effective effort to show the world the wide range of products, materials, and services available from our country. Financing is the key to accomplish this necessary goal for price fades in importance when the "ability to buy" takes over.

IMPORTANCE OF FAVORABLE U.S. PAYMENTS BALANCE

Mr. RIEGLE. There has been some discussion about the United States taking a passive attitude toward its balance-of-payments deficit because of its dominant world trade position and the use of the dollar as a reserve currency. Do you agree with this policy of "benign neglect?"

Mr. KEARNS. I do not agree, nor do the central bankers of our trading partners, the world financial community and the great majority of responsible economists. It is precisely because the dollar is the reserve currency that we must work to assure its integrity, and that integrity cannot be assured if we continue to spend billions more abroad than we take in, principally through exports. It is precisely for that reason that we must take all the positive steps at our command to increase exports, and certainly one of the most positive steps we can take in that regard is a greatly improved mechanism, the Export-Import Bank, to assist in financing a rapid export expansion.

PRINCIPAL RESTRICTION HAMPERING BANK SUPPORT OF INCREASED EXPORTS

Mr. RIEGLE. Does the Bank ever find itself in a position where its actions are hampered by trade legislation or commerce restriction of any kind?

Mr. KEARNS. The greatest thorn in the side of progress as far as the Bank is concerned is its inclusion in the unified budget. Banks of any sort cannot operate effectively or intelligently if restricted by a cash-in, cash-out accounting system, and the Export-Import Bank simply cannot provide the Nation's exporters with the flexibility and continuity they need under the unified budget concept. That is why we are working so hard to obtain enactment of the legislation currently pending in the Congress which would remove the Bank from computations of the budget. The unified budget hampers most the ability of the Bank to do its job well.

Exporters, on the other hand, are faced with restrictions at home and abroad which hamper their activities. Tax treatment inequities raise major problems for exporters. Excessive documentation required by governments and shippers also hampers exporters in their ability to

sell overseas. Foreign import restrictions, too, often work against the U.S. exporter. Eximbank, however, is hampered principally by its inclusion in the unified budget.

BANK FINANCING OF MILITARY EXPORTS

Mr. RIEGLE. There has been a sizable volume of your business given over to defense material financing. What is your policy regarding the financing of defense-related items and wouldn't it be preferable to leave this to the Defense Department?

Mr. KEARNS. Actually, the volume of Eximbank financing of military exports has decreased both in size and proportion to total lending over the last several years. Here are the figures:

	Total loans	Military loans	Military/total, (percent)
Fiscal year—			
1966	$1,095	$498	45.5
1967	2,444	898	36.7
1968	2,264	825	36.4
1969	1,110	225	20.3
1970	1,625	286	17.6

Our policy is that we will finance a minimal amount of military exports to developed countries when it is determined after consultation with the Departments of State, Treasury, and Defense that it is in the national interest to do so.

I would not argue strenuously that Eximbank should get out of the military export business altogether, since a military export is as beneficial to our country's economy as a nonmilitary export; and Eximbank probably is in a key position to encourage greater participation by the Nation's commercial banks in military export financing. But certainly the major role in this business should be played by the Department of Defense, where superior knowledge of the product and overseas customer prevails.

Mr. PASSMAN. When we return to the committee we are going to yield to you for all the time that you need.

Mr. ROYBAL. Thank you, Mr. Chairman, but I don't need any.

Mr. GALIFIANAKIS. I have another subcommittee meeting.

Mr. PASSMAN. Are you finished?

Mr. ROYBAL. Yes, and you convinced me.

Mr. PASSMAN. It is a good operation, and not only makes money for the American manufacturer but makes a lot of money for the Treasury.

Ladies and gentlemen, that concludes the fiscal year 1972 hearing on the program of the Export-Import Bank of the United States. Thank you very much. The committee will adjourn.

TUESDAY, APRIL 20, 1971.

OVERSEAS PRIVATE INVESTMENT CORPORATION

WITNESSES

BRADFORD MILLS, PRESIDENT
CECIL HUNT, DEPUTY GENERAL COUNSEL
JOHN C. L. DONALDSON, ACTING MANAGER, PUBLIC AFFAIRS
PETER A. DICKERSON, SENIOR PROGRAM OFFICER

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Program by activities:			
Operating costs funded:			
1. General administrative expenses		3,103	3,902
2. Investment encouragement fund (investment survey costs)		500	750
3. Insurance and guaranty program:			
(a) Insurance reserves (claims paid)		6,000	10,000
(b) Guaranty reserves (claims paid)		5,600	6,600
Total operating costs		15,203	21,252
Capital outlay, funded:			
1. Direct investment fund (loans)		3,000	12,000
2. Fixed assets and equipment		60	10
Total capital outlay		3,060	12,010
Total program costs, funded		18,263	33,262
Change in selected resources [1]		63,971	42,600
Total obligations		82,234	75,862
Financing:			
Receipts and reimbursements from:			
Federal funds:			
Interest revenue from U.S. Treasury securities	−521	−1,950	−2,600
Cooley loan administration (reimbursements)		−425	−425
Non-Federal funds:			
Loan program: Interest income			−695
Insurance program (fees and premiums)		−28,158	−31,000
Guaranty program (fees and premiums)		−2,455	−4,300
Sale or acquired assets		−400	−400
Unobligated balance available, start of year:			
Drawing account with Treasury		−57,370	−83,817
U.S. securities (par)		−30,750	−45,000
Unobligated balance transferred from other accounts:			
(Foreign Investment Guaranty Fund)	−30,099	−50,793	
(A.I.D. development loan funds)	−20,000	−20,000	−20,000
Unobligated balance available, end of year:			
Drawing account with Treasury	57,370	83,817	77,375
U.S. securities (par)	30,750	45,000	60,000
Budget authority (appropriation)	37,500	18,750	25,000
Distribution of budget authority by account: Insurance and guaranty reserve account	37,500	18,750	25,000
Relation of obligations to outlays:			
Obligations incurred, net	−521	48,846	36,442
Obligated balance, start of year		261	74,721
Obligated balance transferred, net		11,323	
Obligated balance, end of year	−261	−74,721	−118,876
Outlays	−782	−14,291	−7,713
Distribution of outlays by account:			
Insurance and guarantee reserve account		11,600	16,600
Overseas Private Investment Corporation—Operating account	−782	−25,891	−24,313

[1] Balances of selected resources are identified on the statement of financial condition.

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Personnel compensation:			
Permanent positions		1,820	2,250
Positions other than permanent		66	89
Other personnel compensation		0	10
Special personal service payments		38	
Total		1,933	2,349
Personnel benefits: Civilian employees		155	188
Travel and transportation of persons		150	180
Rent, communications, and utilities		275	330
Printing and reproduction		50	50
Other services		500	750
Supplies and materials		40	55
Equipment		60	10
Investments and loans		3,000	12,000
Grants, subsidies, and contributions		500	750
Insurance claims and indemnities		11,600	16,600
Total, costs funded		18,263	33,262
Change in selected resources		63,971	42,600
Total obligations		82,234	75,862

PERSONNEL SUMMARY

Total number of permanent positions		130	140
Full-time equivalent of other positions		5	6
Average number of all employees		110	135
Average GS grade		9.7	9.9
Average GS salary		$14,333	$15,514
Average grade, grades established by the President, Overseas Private Investment Corporation (83 Stat. 805)		15.5	15.5
Average salary, salaries established by the President, Overseas Private Investment Corporation (83 Stat. 805)		$25,902	$26,135

Mr. PASSMAN. The committee will come to order.

We shall examine this afternoon the budget request for the Overseas Private Investment Corp. in the amount of $25 million. We have as witnesses Mr. Bradford Mills, president, Cecil Hunt, deputy general counsel, John C. L. Donaldson, acting manager, public affairs, and Peter A. Dickerson, senior program officer.

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

GENERAL STATEMENT

Mr. MILLS. Yes, I do, Mr. Chairman. Mr. Chairman and members of the committee: I am pleased to have this opportunity to give the first report on the operations of the Overseas Private Investment Corp. (OPIC). Although the officers and directors were sworn in just 3 months ago, I also am reporting on the operations of its programs as they were administered under AID before the Corporation was activated on January 19, 1971.

Our only appropriation request for the coming fiscal year is for $25 million to augment the Corporation's reserves against claims.

As you know, the Corporation's legislative mandate is to promote, insure, guarantee, and to a limited extent participate in financing U.S.

private investment in friendly less-developed countries. Our basic purpose is to encourage private enterprise growth in the developing countries by reducing the disadvantages of U.S. private investment there, as compared with investment in advanced countries, and by selectively encouraging those types of U.S. business investment which contribute to the mutual interests of the less-developed countries and the United States.

To achieve this basic purpose, we are guided by two major criteria. The first is to assist only those financially sound investments which are welcome in, and beneficial to, host countries. The second is to conduct OPIC's investment incentives on a business-like basis so that our financing programs will be financially self-sustaining, and our political risk insurance will be governed by prudent risk-management.

Based on the indications of these first 3 months, I believe our operations are proceeding in accordance with those guidelines and with the intent of Congress in chartering the Corporation.

FISCAL YEAR 1971 OPERATIONS

The attached tables and justifications submitted to the Committee explain in detail the Corporation's fiscal year 1970–72 operations and administrative statistics, actual and estimated.

During the current fiscal year ending June 30, 1971, we estimate a total gross income (primarily from fees charged investors for insurance and guaranties) of $29.1 million and expenses of $2.9 million, resulting in net earnings of $26.2 million, available for claims. As of March 31, the figures were $22.7 million earned against expenses of $2.5 million.

By June 30, we estimate that we will have written investment insurance this fiscal ear of $1.2 billion, and issued financial guaranties totaling $20 million. We expect to begin making commitments from our Direct Investment Fund late in this fiscal year amounting to about $5 million. Local currency (Cooley) loans will total about $16 million. We will commit an estimated $325,000 in pre-investment assistance (out of the Corporation's earnings).

OPIC LIABILITIES AND EXPOSURE

The total insurance portfolio written since the beginning of the political risk program more than 20 years ago, and in effect as of December 31, 1970, was as follows:

For expropriation, $2.5 billion under current coverage with insured investors having the standby option to increase this coverage by the amount of actual investments up to an additional $1.3 billion.

For war and insurrection, $2.1 billion of currently maintained coverage with options to increase this by up to $1.1 billion.

For convertibility, $700 million with insured investors' options to increase it by up to $3 billion.

The cumulative total of financial guaranties (including commercial risk coverage) is $169 million.

Local currency (Cooley Fund) loans outstanding total 225, the dollar-equivalent amount of which is $154 million.

Some 347 50–50 investment surveys have resulted in 52 projects involving a total planned investment of $104 million, and OPIC has outstanding commitments of $280,600 for our contract with the private, nonprofit Agribusiness Council for preinvestment assistance primarily in food marketing, distribution, and storage.

In determining the Corporation's liabilities, it would be misleading to total the current or current plus standby coverages to arrive at a total exposure. It is highly improbable that claims against all three of the specific political risks would be triggered at once, or that such events would affect all investors in all countries in which the insured investments were made. Moreover, widely varying factual circumstances would determine the extent of the actual liability of the Corporation under each contract.

The predecessor management of the insurance program estimated the maximum contingent liabilities of the portfolio at about $3.5 billion. To set an absolute maximum, we are now writing fixed contingent liability limits into each new insurance contract.

RESERVES AGAINST CLAIMS

OPIC reserves currently consist of $70 million for political risk insurance, $70 million for financial guaranties, and $14 million as yet unallocated by the Board of Directors. To these reserves, the Board will be able to add some $33 million of corporate earnings in fiscal year 1972.

The Congress has recognized in recent years that a substantial ready reserve is required to assure investors, particularly smaller investors, that payment of their claims would not be delayed while awaiting appropriations. Eighty-six percent of the Corporation's insurance contracts issued last year covered investments of less than $5 million each. The directors and management of the Corporation wish to increase its reserves so as to maintain assurance of prompt payment, except in cases involving unpredictably large losses. The reserve against outstanding financial guaranties must, as matter of law, equal 25 percent of currently outstanding guaranties. In the early years of our operations, earnings will not be sufficient to meet these two needs for growth in the Corporation's reserves. Consequently, the administration has requested that the Congress appropriate an additional $25 million this year to augment the existing and potential earned reserves of the Corporation.

CLAIMS

For the first 9 months of fiscal year 1971 OPIC has paid claims amounting to approximately $118,000, and had claim recoveries of $49,000, amounting to a net payment of $69,000. We estimate total insurance and guaranty claims in fiscal year 1971 will amount to $798,000, so that the net payment by the Corporation will be about $749,000. Pending claims totaling approximately $3 million are now being processed. We are faced with other potential claims in certain countries which have not yet materialized, nor do we know yet how many will. I would be pleased to discuss particular country situations with the committee on a classified basis because of their sensitive nature.

OPIC CAPITAL

Originally an appropriation request for $20 million for OPIC capital was included in the current fiscal year budget. After reviewing the immediate need for additional loan funds, one of the first decisions I made as president was to defer that request. The Corporation's capital—currently $40 million—is intended to be used as a direct investment fund to make loans directly to borrowers, as distinguished from loan guaranties which enable new businesses in developing countries to borrow from U.S. private long-term lenders. No loans have yet been made from the capital fund and I believe it makes sense to defer asking for additional funds until substantial commitments have been made.

FISCAL YEAR 1972 OPERATIONS

Insurance.—In the coming fiscal year, we expect to write approximately comparable amounts of political risk insurance to those issued in fiscal year 1971; that is, about $550 million for inconvertibility, $850 million against expropriation, and $850 million covering war, revolution or insurrection, totaling about $850 million in maximum contingent liability.

Financing.—I expect the amount of investment financing to increase substantially over the next fiscal year. This year's figure—an estimated $20 million—is down from $96 million in fiscal year 1970 because of the delay in establishing OPIC, tight money, and lower business volumes in the United States. We now are considering applications for private financial guaranties totaling about $120 million. We are actively reviewing 13 potential projects for which loans from the direct investment fund may be applicable. During fiscal year 1972, we may commit about $30 million from this fund, although the pending potential projects total considerably more than this amount.

Any estimates of direct and guaranty financing in fiscal year 1972 may prove to be wide of the mark, because the pending projects are largely in the early stages of discussions. A long leadtime is required to develop successful projects, due to the complexity of establishing new enterprises in LDC's, our requirement that projects be soundly financially conceived, and the need for potential markets and prices of goods to be carefully researched. The amount of financial guaranties and loans will fluctuate from year to year.

Pre-Investment Assistance.—For fiscal year 1972, OPIC has budgeted $750,000 for pre-investment assistance. This is a slight increase over the current year, although less than originally planned. Experience suggests that this budgeted amount represents a prudent use of our funds. I believe that the requested level will permit the necessary flexibility for us to experiment with new techniques and approaches as we are directed to do by the OPIC enabling legislation.

ADMINISTRATIVE BUDGET

The costs of managing the Corporation are wholly funded from earnings. The fiscal year 1970 and fiscal year 1971 administrative costs ($1.4 million and $2.6 million, respectively) are understated because until January of this year the programs were operated as an

integral part of AID, and certain administrative costs were merged in AID accounts. These items include some personnel costs and benefits, occupancy costs, communications services, auditing, and accounting. To administer its increasing program volumes the Corporation has been recruiting within the staffing plans presented to the Congress. The increase in personnel costs in fiscal year 1971 reflects hiring approximately 20 people (we have 120 on board as of March 31—well within the projected limits) many of whom are working on both portfolio management and new business.

Other expenses increased primarily because of the administrative costs of the small-loan community credit guaranty program. Also included in the "other" category are contracts with an independent public accounting firm to assist in our evaluation of potential insurance claims, with a research firm to provide advice on risk management, and for other services (consultants and legal services).

We propose an administrative budget of $3.6 million for fiscal year 1972, or about 10 percent of our estimated gross income.

We expect we will have to recruit an additional 15 persons primarily to handle our business portfolio more effectively. This accounts for the increase in personnel costs for both fiscal years 1971 and 1972. As with any small agency, the personnel costs of OPIC represent a large portion (about 70 percent) of the total administrative budget.

The increase in personnel and travel costs reflects the fact that the Corporation must monitor project problems and solve them by sending its insurance or finance officers and claims specialists to the field. Since OPIC does not have offices overseas, and since AID overseas staffs are being reduced, this increase in travel is prudent to protect the Corporation's business interests.

RECENT CHANGES IN PROGRAM MANAGEMENT

We have taken some important first steps to assure that the Corporation is run along the lines set by Congress. The management and board have:

Increased the fees charged on all investment insurance contracts (from 1⅛ percent to 1½ percent per annum for all three coverages) to increase earnings and enlarge our reserves.

Established ceilings on our risks in certain countries which cannot be exceeded without specific board authority.

Adopted project eligibility guidelines which emphasize requirements for both commercial soundness and contribution to social and economic development—including, for example, effects on host country tax revenues, foreign exchange, employment, and ecology.

Set more specific terms and conditions for the financing and insuring of large and/or sensitive projects.

Provided for intensive analysis and review of all political risk insurance projects of $10 million or more, and board review of all investment guaranties and direct investment fund loans.

Implemented the small-loan community credit guaranty program in Brazil, Guatemala, and Honduras.

On the administrative side, we also are establishing new project inspection and monitoring procedures and accounting and financial

reporting systems which more accurately reflect the results of our operations.

To improve the administration of the Corporation, we have arranged for it to be audited twice each year—once by the AID Auditor General and once by the General Accounting Office. We already have had audited statements prepared as of December 31 for the years 1969 and 1970, and are preparing one as of January 31, 1971, in order to avoid the complexities of an audit as of January 19, 1971, the date OPIC was officially established.

Mr. Chairman, this completes my prepared statement. I would be pleased to answer your questions.

EXHIBIT A

OVERSEAS PRIVATE INVESTMENT CORPORATION INCOME AND EXPENSE PRO FORMA STATEMENT

	Estimated for fiscal year 1971	Estimated for fiscal year 1972
Income:		
Fees:		
Political risk insurance	$25,000,000	$33,000,000
Insurance application fees	6,600	50,000
Investment guarantee	998,000	1,718,000
Moss program	0	15,000
Total fees	26,004,600	34,783,000
Interest:		
Direct investments	0	240,000
U.S. obligations	2,819,000	2,817,000
Claim related notes	48,150	67,150
Total interest	2,867,150	3,124,150
Claim recoveries	49,685	87,000
Cooley program (contract, AID)	216,000	216,000
Total income	29,137,435	38,210,150
Expenses:		
Administrative	2,657,946	3,603,000
Preinvestment program	325,000	750,000
Total expenses	2,982,946	4,353,000
Total earnings available for reserves	26,154,489	33,857,150

EXHIBIT B

OVERSEAS PRIVATE INVESTMENT CORPORATION PRO FORMA BALANCE SHEET

[U.S. dollar units]

	Fiscal year ended June 30, 1971	Fiscal year ended June 30, 1972
Assets:		
Cash	3,290,651	1,102,821
U.S. obligations	[1] 56,755,217	[1] 79,000,000
Appropriate insurance and guarantee fund	[2] 114,111,484	[2] 139,111,484
Direct investment fund	40,000,000	30,000,000
Total	214,157,352	249,214,305
Direct investments	0	10,000,000
Fixed assets	65,000	63,000
Claim related assets	[3] 3,520,000	[3] 3,433,000
Sundry assets:		
Accrued interest in U.S. obligations	1,788,898	1,788,795
Travel advance	2,500	2,800
Total assets	219,533,750	264,501,900
Liabilities, reserves, and net worth:		
Liabilities:		
Accrued expense	250,000	325,000
Unapplied advances	325,000	400,000
Total	575,000	725,000
Deferred fees paid but not earned	11,800,000	12,200,000
Total liabilities and deferred items	12,375,000	12,925,000
Appropriated reserves:		
Insurance reserve	63,865,484	76,365,484
Guarantee reserve	50,246,000	62,746,000
Total	114,111,484	139,111,484
Net worth:		
Capital stock	[4] 40,000,000	[4] 40,000,000
Applied earnings, insurance and guartanee reserves	[5] 25,888,516	[5] 49,888,516
Unapplied earnings	[6] 27,158,750	[6] 22,576,900
Total	93,047,266	112,465,416
Total liabilities, reserves, and net worth	219,533,750	264,501,900

[1] Amount invested in U.S. obligations from applied earnings, unapplied earnings, and fees paid but not yet earned amounts.

[2] Includes fiscal year 1971 appropriation of $18,750,000 and fiscal year 1972 requested appropriation of $25,000,000.

[3] Assigned value to claim related properties. Any recoveries above these values will be reported as income when received in subsequent year.

[4] Represents fiscal year 1970 and fiscal year 1971 approved amounts of $20,000,000 for each year.

[5] Net after claim payments estimated at $798,103 for fiscal year 1971 and $14,439,000 for fiscal year 1972 resulting from Board of Directors' allocation from unapplied earnings.

[6] Available for Board of Directors' allocation to applied earnings.

EXHIBIT C

OVERSEAS PRIVATE INVESTMENT CORPORATION PRO FORMA RESERVES STATEMENT

Reserves	Insurance	Guaranty	Earned surplus
June 30, 1970 balance	$54,490,484	$40,871,000	$27,690,880
Fiscal year 1971 appropriated	9,375,000	9,375,000	
Fiscal year 1971 earnings			26,154,489
Applied earnings, March 1971	6,135,000	19,754,000	(25,889,000)
Applied earnings, June 1971	479,516	318,103	(797,619)
Claims charged, fiscal year 1971	(480,000)	(318,103)	
June 30, 1971 balance	70,000,000	70,000,000	27,158,750
Fiscal year 1972 earnings			33,857,150
Fiscal year 1972 appropriated	[1] 12,500,000	[1] 12,500,000	
Applied earnings	33,500,000	4,939,000	(38,439,000)
Claims charged	(10,000,000)	(4,439,000)	
June 30, 1972 balance	106,000,000	83,000,000	22,576,900

[1] Based upon an additional $25,000,000 reserve appropriated for fiscal 1972.

BIOGRAPHY

Mr. PASSMAN. We thank you for your statement and we will ask Mr. Mills to furnish a biographical sketch for the record.

(The biographical sketch follows:)

Name: Bradford Mills.

Previous position: Senior vice president and director, New York Securities Co., Inc., 1 New York Plaza, New York, N.Y. 10004.

Home address: Pretty Brook Road, R.F.D. No. 2, Princeton, N.J. 08540.

Born: December 16, 1926.

Background: Founded own firm (New York Securities Co.) in March 1962 to handle public offerings, mergers, acquisitions, private placements, financial consulting, sales anl leasebacks, private financial work, venture capital and other financial services. Member of New York Stock Exchange, 1956 joined corporate finance department of F. Eberstadt & Co., 65 Broadway, New York City. Admitted to partnership in 1960. With six other partners, purchased the corporate finance department to found New York Securities Co., Inc. in 1962; 1948–50, assistant to the director of the Overseas Territories Division of the Economic Cooperation Administration (ECA) in Paris. Responsible for handling economic aid to the overseas dependencies of Western European countries.

Education: Oxford University, Oxford, England, October 1950 to June 1951. Studied for B Litt in international investment in underdeveloped countries.

Princeton University, Princeton, N.J., June 1, 1948, graduated cum laude in economics.

Military service: U.S. Navy—1944–46 Naval Officer Training Program and fleet duty; recalled to active duty as U.S. Naval Intelligence Officer specializing in African affairs, 1952–53.

Family: Married, four children.

Directorships: Founder and chairman of the board, Specialized Services, Inc., of Atlanta, Ga., publicly owned company with investments in trucking, transportation, and soft drinks.

JUSTIFICATION MATERIAL

Mr. PASSMAN. We will insert at this point in the record the justifications.

(The information follows:)

OPIC RESERVE REQUEST FOR FISCAL YEAR 1972

The President's budget requested a $25 million increase in the Corporation's reserves to back private investment insurance and guaranties. Amounts appropriated for reserves represent new obligational authority (NAO).

Section 237(c) of OPIC's enabling legislation (title IV of the FAA of 1969) provides that the full faith and credit of the United States is pledged for the full payment and performance of insurance and guaranty obligations of the Corporation. While investors are assured that they will be paid ultimately, the bulk of smaller and medium-sized investors need assurance that their claims will be paid promptly. They are unable to await congressional action. Therefore, a reasonable cash reserve is required in order to assure these investors that payment will not be held up until the appropriations process is completed. In 86 percent of the projects receiving insured investment in fiscal year 1970 the amount insured was less than $5 million each.

The $25 million requested for fiscal year 1972 is designed to provide a modest increase to existing reserves, primarily to keep pace with the growing insurance portfolio. This will enable the Corporation to maintain step-by-step augmentation of reserves toward a total level more in keeping with the liability at risk. The Corporation recognizes the intent of Congress that the cash reserve is not designed to cover catastrophic losses for an entire country or the loss of a number of large projects. The full faith and credit of the United States as opposed to a cash reserve provides appropriate backing for such losses.

New investment covered by new insurance during the first 9 months of fiscal year 1971 totaled $875 million. Over the last 8 years expropriation coverage has increased from $358 million to $3.8 billion; convertability coverage has increased from $461 million to $3.7 billion; and war, revolution and insurrection coverage has increased from $20 million to $3.2 billion. Over the same period Congress has reduced amounts available or requested for reserves by over $400 million, reflecting the fact that it does not believe a large liquid reserve is needed to maintain investor confidence in the program. At the same time it has recognized through the appropriation process, that modest annual additions to the reserves are desirable to keep pace with the growing portfolio. The $25 million requested for fiscal year 1972 is the minimum amount which the Corporation believes prudent to accomplish this purpose.

An additional encumbrance on the Corporation's total reserves is the statutory requirement that all outstanding investment guaranties be backed by a fractional reserve of 25 percent. The $70 million already allocated will permit outstanding guaranties totaling $280 million, an amount which will be fully utilized by the end of fiscal year 1972. A portion of current income and appropriated amounts will therefore need to be applied to the guaranty reserve to permit continued growth of the program.

OPIC Capital Request for Fiscal Year 1972

The President's budget requested a $20 million increase in the Corporation's capital (to $60 million) as the third tranche in a planned 5-year capitalization of $100 million. OPIC's capital is used by the Corporation as direct investment fund to make loans to eligible private investment projects.

The Corporation was activated on January 19, 1971, some 13 months after its enabling legislation was signed into law, resulting in a delay in implementing the Corporation's planned programs. Because of this, none of the capital has yet been committed although 13 projects totaling an estimated $20–$25 million in prospective loans are under active consideration.

For this reason OPIC has decided not to pursue the request for an additional $20 million capital in fiscal year 1972. Postponement of OPIC's capitalization by 1 year does not forego the probability, based on actual need for the capital, that the Corporation will request additional capital in fiscal year 1973 and 1974. If use of the capital increases significantly, it may be that appropriation requests in fiscal year 1973 and fiscal year 1974 will be for more than $20 million, thus allowing the Corporation to achieve the originally intended $100 million capitalization on schedule.

Since the $20 million requested for fiscal year 1972 was to come from reflows of AID and predecessor agencies development loans, the deletion of the $20 million request does not reduce the Corporation's budget request for new obligational authority (NOA) for reserves. The $20 million in reflows would revert to AID for normal program purposes.

OPIC—ADMINISTRATIVE OBLIGATIONS

Expense components	Actual fiscal year 1970	Estimate, fiscal year 1971	Planned fiscal year 1972
1. Personnel costs	[1] $1,082,867	$1,833,265	$2,549,000
Direct	1,082,867	1,691,605	2,349,000
Contract	0	141,660	200,000
2. Personnel benefits	83,228	148,618	207,200
3. Travel and transportation	82,136	139,000	182,000
4. Occupancy cost	[2] 0	[3] 194,400	242,700
5. Communications	[2] 0	[3] 60,932	91,500
6. Printing	3,985	6,907	25,000
7. Supplies	606	5,624	6,000
8. Other	139,848	269,200	300,000
Total	1,392,670	2,657,946	3,603,400

[1] Personnel costs for 1970 are understated in terms of succeeding years because all personnel working on investment incentive programs were not charged against OPIC's budget. A.I.D. paid for certain legal, program planning and audit accounting services from direct appropriations for part of fiscal year 1970.
[2] A.I.D. paid for occupancy, communications and certain other costs in fiscal year 1970 from appropriations.
[3] Occupancy and communications costs in fiscal year 1971 are for part of the year because OPIC did not move to separate office space until October 1970.

OPIC PROGRAM BUDGET ESTIMATES

	Inconvert	Expropriation	War	Combined, war and expropriation	Use of authority: Used	Use of authority: Amount remaining
A. Insurance—Use of OPIC statutory authority (In millions of dollars):						
Authorized ceiling						7,500
Fiscal year 1970	344	89	49	250	722	
Balance						6,778
Fiscal year 1971 estimate					1,243	
Old contract	285	36	69	[1] 578	968	
New contract	270	211	244		[2] 275	
Balance						5,535
Fiscal year 1972 estimate	550	850	850		850	
Balance						4,685

	Fiscal year 1970	Fiscal year 1971 (estimate)	Fiscal year 1972 (estimate)
B. Financing:			
Guaranties signed	96,300,000	20,000,000	125,000,000
DIF Committed	0	5,000,000	30,000,000
C. Pre Inv. Asst.	$617,000	$325,000	$750,000

[1] For purposes of comparison the amounts of the combined coverage for war and expropriation (which are no longer being issued) should be added to the amounts shown for war and expropriation listed under the "old contract" line of the table.
[2] The new legislation charges insurance against an authorized ceiling which is stated in terms of OPIC's maximum contingent liability. Under the insurance contract used prior to January 1971 the aggregate sum of the total face amounts of coverage was required to be obligated, as a recovery in this amount was theoretically possible; under the new contract which has been in use since January 1971 only the amount of the largest single coverage is required to be obligated, as the maximum amount of recovery is limited to the largest single coverage.

INSURANCE

Based on the amount of investment insurance requested in applications currently on hand, it is estimated that in fiscal year 1972 OPIC will issue new contracts of about $550 million for inconvertibility, $850 million for expropriation and $850 million for war risks. This is comparable to the amount of insurance expected to be issued for each of the coverages in fiscal year 1971. For the first three quarters of fiscal year 1971 over $400 million had been issued for convertibility, $675 million had been issued for expropriation and $740 million had been issued for war risks.

FINANCING

While the fiscal year 1971 financing volume was considerably less than the previous year, due largely to the delay in implementing the OPIC organization and unfavorable conditions in the U.S. private money market, it is anticipated that the amount of investment financing will increase significantly in fiscal year 1972. At present OPIC has under review applications for 14 investment projects involving a potential commitment of OPIC resources of about $120 million. Most of these projects are expected to come to fruition during fiscal year 1972, accounting for the estimate of $125 million noted in the preceding summary.

A long leadtime is required to develop successful projects. This is due to the complexity of establishing new enterprises in LDC's, OPIC's requirement that the projects be soundly conceived and developmental, and potential markets and price of goods be carefully researched.

It is estimated that in fiscal year 1972 the Corporation also will begin to make greater use of its direct investment fund, lending approximately $30 million At present OPIC has applications from individual investors and intermediate credit institutions for 13 projects, with loan requests totaling over $30 million.

These estimates for fiscal year 1972 financing could be either significantly less or greater, depending upon the length of time it takes for proposals presently in the investigation stage to develop into bankable projects. For some years ahead OPIC anticipated that the actual amount of guaranties and loans made in any given year will fluctuate.

PREINVESTMENT ASSISTANCE

For fiscal year 1972 OPIC has budgeted $750,000 for preinvestment assistance. This is a slight increase over the current year, but significantly less than originally planned. Experience suggests that this budgeted amount represents a prudent use of OPIC's corporate resources. The Corporation believes, however, that the fiscal year 1972 level will permit some flexibility for OPIC to experiment with new techniques and approaches as provided in the OPIC enabling legislation.

Mr. PASSMAN. I yield to Mr. Hathaway.

Mr. HATHAWAY. Mr. Chairman, I just got in town and have not had a chance to read the statement. I will yield back to you until I have had a chance to read it before I ask any questions.

Mr. PASSMAN. You may take all the time you need when you come back.

I will now yield to Mr. McEwen.

Mr. MCEWEN. Mr. Chairman, I have no questions at this time.

Mr. PASSMAN. I will now yield to Mr. Long.

POTENTIAL LIABILITY IN CHILE

Mr. LONG. On page 6 of your statement you say you face potential claims on specific countries that have not yet materialized and that you would be glad to discuss various countries on a classified basis with the committee.

What do you anticipate in Chile? Are there several American businesses in Chile in danger of nationalization? What is OPIC's potential liability there?

Mr. MILLS. Mr. Chairman, can we discuss this on a classified basis?

Mr. LONG. Why not? Put it on the record.

Mr. PASSMAN. Put it on the record.

Mr. MILLS. Because some of the settlements we have made involve privileged business information which the insured investing companies would not want us to discuss openly.

Mr. LONG. Why should we care about what the companies want? They are getting a U.S. guarantee. Why should it not be on the record?

Mr. PASSMAN. We will put it on the record and if it is actually classified we will certainly remove it, but we do not want companies to try and dictate the policy of this committee and cover up something that should be public knowledge.

Mr. MILLS. The three coverages we have under our insurance program are expropriation, inconvertibility and war risks.

The estimated total maximum liability in Chile under current expropriation coverage is $310 million; under inconvertibility, $171 million and under war risks, $119 million.

The expropriation figures do not include certain contracts for which we say the U.S. Government is not responsible to the Anaconda Copper Co.

Mr. LONG. So we could stand to lose $310 million, is that right?

Mr. MILLS. That would be the maximum, if everything was expropriated today without any compensation. Covered investors have an additional $85 million of exproporiation coverage on a standby basis.

In that regard, we have already been involved with three actual or potential claims: one for approximately $18 million from Bethlehem Steel Corp.; and two smaller claims. In all three cases offers have been made by the Chilean Government or its agencies to settle the matters with the companies.

Mr. LONG. For money or for Chilean bonds?

Mr. MILLS. No, in part for cash and in part for promissary notes payable in dollars. In the case of Bethlehem which was an $18 million claim, a few weeks ago the Chilean Government announced together with Bethlehem that an agreement had been negotiated between the Bethlehem Steel and the Chilean Government. We were aware of this negotiation and assisted Bethlehem in arriving at a satisfactory agreement. A potential $18 million claim to OPIC appears to have been settled amicably between Bethlehem and the Chilean Government.

Mr. LONG. This is amicable because the U.S. Government is going to pick up the difference.

Mr. MILLS. No. Under the proposed agreement Bethlehem had the choice of either filing an $18 million claim against OPIC or arriving at an agreement with the Chilean Government, and, based upon their——

Mr. LONG. Does this cut down the $310 million?

Mr. MILLS. This should cut down the $310 million, that is right, although OPIC will continue to carry a contingent liability pending performance of the settlement.

DIRECT INVESTMENT FUND

Mr. LONG. On page 7 of your statement you say OPIC is reviewing 13 potential projects for which loans from your investment fund might be made. What types of businesses are being considered for these loans. How much money do they want?

Mr. MILLS. This is from OPIC's Direct Investment Fund?

Mr. LONG. Yes.

Mr. MILLS. The Direct Investment Fund is the capital of the Corporation. It is not a loan fund in the usual, programmatic sense. It is a revolving use of the Corporation's capital to generate income to help

finance OPIC's business, much as a private corporation uses its capital to earn income with which to operate its business.

The basic purpose of the fund is to enable OPIC to participate in projects where our guaranty facility is not suitable. OPIC's use of the funds could include:

(1) taking the initiative in providing early encouragement and commitment of financing to projects with important developmental impact, including intermediate investment companies;

(2) providing contingency funds for unanticipated gaps in project financing caused by a tightness of private money markets, or high interest rates, by the smallness of the project, making it unsuitable for institutional financing, or by a loan period too short for institutional lending, but too long for bank term financing; and

(3) providing a means of sharing in the success of projects, for example, through sale of convertible debentures in such projects to private investors.

The Corporation will lend on terms designed to maintain and roll over the capital fund, that is, at or near commercial rates but usually for longer terms and sometimes with variable interest rates and convertible debenture features.

The primary use of the Direct Investment Fund is to make loans; for example OPIC will lend to intermediate financial institutions which in turn make additional loans. As we testified last year, we are negotiating with ADELA which is a corporation using private funds and investing in Latin America. We are also considering proposals from other intermediate credit institutions such as the Pakistan Industrial Credit and Investment Corp., the Industrial Credit Investment Corp., of India and the International Basic Economy Corp. We are setting up——

Mr. LONG. These are U.S. companies?

Mr. MILLS. The International Basic Economy Corp. is 100 percent United States. ADELA is about 46 percent owned by U.S. interests.

Mr. LONG. Fifty four percent owned by foreign interests. What are we doing in there?

Mr. MILLS. We don't guarantee their loans. We have been talking to ADELA about a loan which they in turn would lend to small borrowers. This is the way that we can efficiently get to a number of small businesses.

Mr. LONG. Why are we doing this with a foreign-owned company? I thought this was to bail out American business abroad, or help them. A 46-percent company is not an American company, is it?

Mr. MILLS. ADELA and a few other regional investment companies of mixed ownership are the best available instrument for serving the small businessman and other American companies operating in their areas. In our proposed agreement with PICA, we would review PICA's operations to assure ourselves of the continuing financial viability of that institution and that our funds are being used for the purposes intended.

Mr. LONG. What is PICA?

Mr. MILLS. Private Investment Corp. for Asia.

This policy, we feel, is very sound. It saves us a great deal of expense and effort to get to the smaller businessman abroad.

Mr. LONG. When I was in Ethiopia, I was told it has been a standard ploy for American companies to sell the Ethiopians on some business for import substitution in which they don't have a prayer of making any or very little money. They figure, "If these Americans think this is a great idea, it must be." The Ethiopians go out and buy a lot of U.S. machinery—that is a device for selling U.S. machinery and equipment—and lose their shirts. Then the U.S. Government comes in and picks up the tab. Does OPIC do this sort of thing?

Mr. MILLS. No, we don't finance the export of machinery. If a U.S. corporation wants to make an investment—and they must make a substantial investment of their own——

Mr. LONG. Are we bailing them out to some extent?

Mr. MILLS. If they fail, that is their loss and not OPIC's. Under our insurance program we would be liable only if Ethiopia expropriated their company, for example, or there was a war. So under the insurance program the answer is we would not bail them out. Under our financial guaranty program, we stand behind the loans or equity investments of eligible U.S. investors against commercial loss.

Mr. LONG. Is there any American aid bailing this firm out? I was told there was.

Mr. MILLS. I cannot speak for other aid programs.

Mr. LONG. OPIC only deals with nationalization or Government expropriation?

Mr. MILLS. And currency inconvertibility under our insurance program. However, in the financing program OPIC generally does take on commercial risks for that portion it is financing.

Mr. LONG. Do you make very careful assessments of what the political situation is in these countries so we don't make a big investment in a nation which might turn around and go Communist?

Mr. MILLS. I am glad you mentioned that because one of the things we have instituted with the board of directors—we have a board, you know, which has six private and five public members. At each meeting, the board reviews the countries where there are operating problems.

We are being very careful in that regard. That is one of the many good things that has occurred as a result of the inauguration of OPIC and its board.

PROJECT SELECTION CRITERIA

Mr. LONG. On pages 9 and 10 I notice your program management changes. What do the eligibility guidleines provide for? How stiff are your requirements that projects meet social and economic development requirements within the host country?

Mr. MILLS. This is another thing that we have emphasized a great deal. As you know, there are two major criteria for each project. One is that each project must be financially sound and the second is that it must be developmental. Congress has said in our insurance program we must use risk-management principles and in our investment financing programs we must be self-sustaining.

On the development side—for instance, in our insurance application form we now have specific questions which we require the companies to answer about the impact of their projects on ecology, on the number

of jobs they are going to create, on the taxes they are going to pay and on the revenues that are going to be generated. We feel——

Mr. LONG. Do you turn down very many?

Mr. MILLS. We have turned down a great many. Last year alone we turned down 75 requests for insurance. Our total applications were roughly about 650 and we turned down 75.

Mr. LONG. Will you put in the record the names of those projects you turned down?

Mr. MILLS. Yes, I can have that supplied.

(The information follows:)

WRITTEN APPLICATIONS FOR INVESTMENT FOR INSURANCE REJECTED DURING JANUARY 1970 TO MARCH 1971

A summary of investment insurance applications recently rejected by OPIC is as follows:

Total applications received	666
Total applications rejected	97

REASONS FOR REJECTIONS

Statutory ineligibility of investor or country under Foreign Assistance Act	17
§ 221—No bilateral agreement with foreign government	(3)
§ 223(c)—Investor not U.S. citizen or corporation	(2)
§ 620(f)—Communist country	(1)
§ 620(n)—Shipping to North Vietnam	(8)
§ 620(m)—Developed country	(2)
§ 620(t)—Severed diplomatic relations	(1)
Foreign government approval refused	12
Premature application (no definite project)	4
Country program suspended	12
OPIC policies	52
Project not sufficiently developmental	(18)
Government control of project	(7)
Irrevocable commitment before registration	(5)
Balance of payments (ineligible foreign procurement)	(3)
Military field	(1)
Overrun after contract issued	(1)
Agricultural product in surplus	(8)
Export to U.S. intended	(5)
Natural resource policy	(2)
Investor's reputation	(1)
Incomplete application	(1)
	97

Mr. PASSMAN. Thank you, Dr. Long.

I want to make this abundantly clear. This is nothing personal in my questioning, but I am a frightened individual——

Mr. LONG. You only won 89 percent last time.

CONDITION OF THE U.S. ECONOMY

Mr. PASSMAN. I came out of the free enterprise sector. I think I know how to associate deficit financing with the overall economy. The record is abundantly clear that no democratic form of government has ever survived over 200 years. These nations begin to embrace socialism and I don't think any person can deny the fact that our speed toward socialism is increasing faster than we anticipated. It is all brought about when the people as a whole, and the people's representatives, find

they can vote themselves stipends out of the Federal Treasury. That is when you are on the way to failure.

You hear people criticize the President about impounding funds. We passed legislation that placed an absolute ceiling on what could be withdrawn from the Treasury in fiscal year 1971. Do we not have a ceiling?

Mr. MILLS. I believe we do.

Mr. PASSMAN. And the President, by law, is forced to keep the expenditures within that ceiling. Is that your understanding?

Mr. MILLS. That is my understanding, yes.

Mr. PASSMAN. Even after impounding $11 billion plus, as I look at the daily Treasury statement this morning for April 14, we have withdrawn from the U.S. Treasury $30,564 million more than we have deposited. That is just 9 months and 14 days of the current fiscal year. We are going to drop the curtain on June 30 with a deficit of about $26 billion. If you use the unified budget concept, it will be about $19 billion.

Now, I have been taught to believe that this excss spending takes on value only by diluting the purchasing power of everybody's dollars. You can't get wealth out of thin air.

SIZE OF FOREIGN AID REQUEST

Now, I just wonder how many of our friends who operate in this broad sphere of foreign aid actually go to the record and put together the total request that is contained in the budget for fiscal year 1972, for foreign aid. Do you have any idea?

Mr. MILLS. No.

Mr. PASSMAN. Would you like to pull a figure out of the air? What do you think it would be?

Mr. MILLS. Four or five billion dollars.

Mr. PASSMAN. $13,517,628,000. The highest in all the history of the aid program. The programs have been fragmentized throughout the budget. Like your agency. I don't think we had any more business creating OPIC than I would have in practicing medicine.

We have many programs, such as the International Development Association, AID, the Inter-American Development Bank, the World Bank and now this little agency that has been created, called the Overseas Private Investment Corporation.

BEGINNING OF OPERATIONS

This operation is brand new, isn't it?

Mr. MILLS. Yes, it is brand new, but my first act as president was to cut $20 million out of our request for the Direct Investment Fund because I felt this was unnecessary and something that we did not need at this time. Perhaps we will need it next year, but I felt it prudent as a businessman, to tell Congress if we don't need money we aren't going to request it.

Mr. PASSMAN. That sounds good, and I don't think you are intentionally misleading the committee, but I have heard these statements before and I have seen these savings disappear very quickly.

I tried to keep this corporation from being created. I have finally just about given up in disgust. I wish I could spend more time on this

matter but we have to take care of legislation, see our constituents, write speeches, and answer letters from our wonderful people at home. It is a full-time job to figure out these schemes you people bring up here and to ask good questions.

You have just recently, I believe, gone into full operation. You have your officers and board of directors appointed; is that correct?

Mr. MILLS. That is correct.

Mr. PASSMAN. When did you actually go into business? On what date?

Mr. MILLS. January 19, 1971.

Mr. PASSMAN. I want to commend you. This is really one of the infant organizations when we think of the overall AID and assistance programs. You have been in business as such about 90 days.

Mr. MILLS. Yes, and we have already cut out $20 million for increased capitalization in 1972.

Mr. PASSMAN. I hope if you take another 90 days that you would abolish it altogether. That is a lot to hope for, but maybe if you feel as I do about this organization when you get through you may want to do just that.

OFFICERS AND BOARD OF DIRECTORS

Would you please place in the record the names and positions of your officers and board of directors?

Mr. MILLS. May we supply that, Mr. Chairman?

Mr. PASSMAN. Place it in the record.

(The information follows:)

The officers and directors are as follows:

EXECUTIVE OFFICERS

Bradford Mills, president and director
Herbert Salzman, executive vice president

DIRECTORS

John A. Hannah (chairman), Administrator, Agency for International Development
Nathaniel Samuels, Deputy Under Secretary of State for Economic Affairs
Paul A. Volcker, Under Secretary of the Treasury for Monetary Affairs
Rocco C. Siciliano, Under Secretary of Commerce
Robert F. Buck (small business), senior vice president, National Bank of Commerce of Seattle, Wash.
Allie C. Felder, Jr. (cooperatives), executive vice president and director of international programs, Cooperative League Fund, and director of the Outreach Division of the Cooperative League of the United States
Gustave M. Hauser (at large), vice president, General Telephone & Electronics International
Daniel Parker (at large), chairman, The Parker Pen Co.
James A. Suffridge (Labor), vice president and member of the Executive Council, AFL–CIO, and president emeritus of the Retail Clerks International Association
Clifford H. M. Yee (at large), president, Finance Factors, Ltd.

LEVEL OF OPERATION

Mr. PASSMAN. I was down home not too long ago and I needed about four laborers to do some work. There is absolutely no sin in working. My parents were good old Christian sharecroppers. I didn't mind working. I milked a cow every morning for 2½ years at a dollar

a month. I saw nothing wrong with that. There is nothing dishonorable about working.

But to get back to the story, I went down to a place called Five Points where these wineheads usually congregate and I wanted four men. I offered to pay $3 an hour. I think there were about 17 in the group. I couldn't get one of them to agree to go with me to clean up this land. Why? Because they could take $1 and purchase $1.06 worth of food stamps.

I will take you down there and let you try to hire these men. There are jobs waiting and you can't get them to work.

I talked to one big plantation owner who had 21 families working for him.

When they fixed it so these people could get food stamps, 12 of them quit. They could put down $1 and get $1.06 worth of stamps. One man had seven children and he had $50 worth of food stamps. However, he needed wine more than food so he sold the food stamps for $15 to his first cousin. Now, this is what we have created in this country.

Mr. LONG. How does that tie in with the OPIC program?

Mr. PASSMAN. It ties in directly with OPIC because this is just another handout program.

These are the things that cause a man to lose control. Then when you come back to Washington you get into some of these foreign aid programs and you find that they are just about as bad as the food stamp program, the welfare program, and the war on poverty program.

In fiscal year 1963 the budget estimate for investment guarantees was $180 million; is that correct?

Mr. MILLS. I don't know, Mr. Chairman.

Mr. DICKERSON. That is correct, $180 million for reserves.

Mr. PASSMAN. And I believe the Congress provided $30 million that same year; is that correct?

Mr. DICKERSON. Yes.

Mr. PASSMAN. The request was reduced by $150 million and you continued to operate; is that correct?

Mr. DICKERSON. Yes.

Mr. PASSMAN. OK. You are being fair.

In 1970 you requested $75 million for the Overseas Private Investment Corporation and we allowed $37,500,000; is that correct?

Mr. DICKERSON. For reserves, that is correct.

Mr. PASSMAN. And you are still in business.

Last year you requested $37,500,000 and we allowed $18,750,000; is that correct?

Mr. DICKERSON. Yes, sir.

Mr. PASSMAN. And I believe Mr. Mills stated that $20 million would have been in addition to the request before us today but you decided you didn't need it and struck it out; is that correct?

Mr. MILLS. That was for a different program. It is not reserves.

Mr. PASSMAN. It is under your operation though?

Mr. MILLS. Yes, it is.

Mr. PASSMAN. You have two spigots under your operation; do you not?

Mr. MILLS. We have an insurance program and a financing program, yes. Under the latter we guarantee loans against all risks, and we participate directly in loan financing in a limited number of circumstances.

Mr. PASSMAN. You made a good point earlier that you decided you didn't need the $20 million and therefore deleted it. Is that in essence what you said?

Mr. MILLS. That is correct.

Mr. PASSMAN. Tie that in with the reductions that have been made in this program over the years. It will show you how far afield we have gone.

DRAFTING OF LEGISLATION

I know what I am leading into and I think you know too. It is easy to get an authorization bill for just about anything you want. You have to have these huge reserves to back up the extensions of credit; is that correct?

Mr. MILLS. Mr. Chairman, by legislative action Congress requires us to have 25-percent reserves for all the guarantees——

Mr. PASSMAN. Who submitted that legislation to the Congress, Mr. President?

Mr. MILLS. The executive branch.

Mr. PASSMAN. Sure. Ninety-nine percent of all legislation is drafted downtown, just like the bureaucrats want it and it is sent up to the Congress so that we may enact it into law. Isn't it just about that simple?

Mr. MILLS. I think the 25 percent reserve reflects the wisdom of Congress.

Mr. PASSMAN. This stuff is cooked up downtown. We fought this for years and we kept this additional lending agency from coming into being. A lot of people feel the food stamp program is a great program and it is necessary, but I wanted to show your program has been about as inflated in prior years as the so-called food stamp program.

CONTINGENT LIABILITY

What is your contingent liability at the present time?

Mr. MILLS. Mr. Chairman, the total contingent liability under each of the three programs—we have on inconvertibility on a current basis $665 million.

Mr. PASSMAN. I want the aggregate.

Mr. MILLS. There are two forms, Mr. Chairman. There is current and standby insurance. As of December 31 current inconvertibility was $665 million and standby, $2,987 million; expropriation insurance was $2.5 billion and standby, $1.3 billion; war risk coverage was $2 billion on current and $1 billion on standby.

Mr. PASSMAN. You have only been in business since January 1971.

Mr. MILLS. This is a 20-year program and we inherited the majority of this insurance from AID.

Mr. PASSMAN. Did you inherit the reserves?

Mr. MILLS. Yes; we have the reserves, but, of course, we lost some of the reserves; $50 million of our earned reserves was taken away to back up the housing guaranty program.

Mr. PASSMAN. Domestic or foreign?
Mr. MILLS. Foreign.

LACK OF PREVIOUS GUARANTEE PROGRAMS

Mr. PASSMAN. Who guaranteed all of these overseas American capital investments before AID came into existence?
Mr. MILLS. Predecessor agencies.
Mr. PASSMAN. Name them, if you will.
Mr. MILLS. First it was the Economic Cooperation Administration.
Mr. PASSMAN. That is a part of AID. This program has had many names since I have been on the committee.
The fact is, private business went abroad with their capital and they selected a location and the type of business they wanted to start. They usually exercised a lot of caution and they got along without Government guarantees; didn' they?
Mr. MILLS. Some of them.
Mr. PASSMAN. The great majority of them. Name some company prior to 1946 when foreign aid was started.
Mr. MILLS. No company I know of.
Mr. PASSMAN. Any Federal agency?
Mr. MILLS. There was no Federal agency but today there are 12 other governments with national guarantee programs.
Mr. PASSMAN. I am talking about before we started this worldwide giveaway program. The investment banker and the manufacturer, would go abroad themselves and would decide whether or not they could afford to invest in these countries. If so, then they made the investment. Isn't that the way it operated?
Mr. MILLS. Well, primarily in Europe.
Mr. PASSMAN. No; not primarily in Europe. I am talking about some of the Latin American countries. Some of the oil companies had big investments in Latin American countries long before we ever heard of AID. Some didn't do too well.
Mr. MILLS. We do very little business in the oil industry even today, Mr. Chairman.
Mr. PASSMAN. You are missing the point. The thing is, we left it up to the free enterprise sector and the banking people to select the spots where they wanted to make investments and go in business; didn't we?
Mr. MILLS. Yes; in times past that was true.
Mr. PASSMAN. Thank you very much.
Mr. LONG. Will the gentleman yield?

AMOUNT OF PRIVATE INVESTMENT OVERSEAS

The chairman raises an interesting chain of speculations in my mind. In your view, how much private investment is going overseas now as a result of this guarantee program that wouldn't be invested overseas if you didn't have this guarantee system?
Mr. MILLS. We have tried to ascertain this and we are told that most of the companies would not go to these developing countries without our insurance or guarantees.
Mr. LONG. So the bulk of our foreign investment would not take place?

Mr. MILLS. Most companies, some as a matter of their own board policy, require insurance. In many the lesser developed countries where the risks are so high as compared to Europe, where they could go without having many of the political risks involved.

Mr. LONG. Could you give us any idea what the export capital is as a result of this program, the annual exports?

Mr. MILLS. In 1970, according to the Department of Commerce, we estimate approximately $1.5 billion went into the so-called lesser developed countries.

Mr. LONG. As a result of the guarantee program?

Mr. MILLS. That is the total investment. In our insurance program last year we covered approximately $1.2 billion.

Mr. LONG. I just want to follow this through for a minute if I could, Mr. Chairman.

You know we have a tremendous capital shortage in this country, and interest rates are very high. We can't find capital for our own housing programs. And when businessmen go to the banks, they are told there is a shortage of money, and they have to pay very high interest rates. I wonder how much of this is caused by our promoting and subsidizing the export of capital abroad through programs like OPIC?

Mr. MILLS. I think the answer to that question is a statement in the paper today in connection with Latin America that U.S. private business does not go into these countries to be expropriated and they won't go if they feel there is great danger——

Mr. LONG. Fine. Then why have them go into these countries? We need captial here at home. We have a tremendous shortage of capital.

As the Chairman said, at one time businesses made their own assessments and appraisals of the risks. If they couldn't see that the risks were justified, they didn't go in. But now the Federal Government is promoting the export of our capital. Then we turn around and complain that we can't get enough capital locally for our own business firms. Yet we are giving income tax breaks to firms to invest to sort of overcome the capital shortage we have created as a result of our own policies.

INTERNATIONAL FINANCIAL SITUATION

Mr. PASSMAN. This may spell it out in greater detail. Of course, it is easy to sit here and say "That is a fine estimate. Are you sure that is all you need? We want to supply you with all your needs." But we have to look at this program realistically.

Let's look at the U.S. balance-of-payments situation. The annual letter I put out only covers 1950 through 1969. During this time we have sent abroad $44,104 million more than we brought home. We ought to have some incentive today to make investments in America and not abroad. But the time is coming when we are going to have to look seriously at what is going to happen to our country if we don't get our house in order.

I am afraid when I bring this statement up to date and add in the 1970 figure, that we are going to learn that we have sent abroad about $50 billion more than we brought home for the last 21 years. As we sit here and talk today the vaults of European banks and treasuries are filled with U.S. dollars and I am very fearful that there is going

to be another run on our gold supply—agreement notwithstanding—and I would think rather than to send investments abroad we ought to be bringing these investments back to the United States.

Mr. MILLS. These dollars that have gone abroad unfortunately, have not gone to the less developed countries and that is what we are trying to accomplish.

Mr. PASSMAN. Let me correct you. Let's go to Thailand. Thailand is considered a less-developed country, is it not?

Mr. MILLS. It is.

Mr. PASSMAN. Do you realize that we have given Thailand over $1 billion in economic and military grant aid since 1946 and during the same period she built up a foreign exchange credit of over $1 billion? We went out to Thailand and we prevailed upon her to make us a short-term loan of $100 million. We wanted to borrow a quarter of a billion dollars from Thailand. They had a billion dollars in the foreign exchange reserves, and finally they agreed to make us a loan of $100 million, repayable in 4½ years at 6 percent.

Don't tell me these foreign countries don't have dollars on hand. They are waxing fat with wealth.

All you have to do is look at the record. I want to give you this sheet with my compliments. I want you to look it over.

I believe the time is coming when we may have to look a little bit closer at our technical aid program, our educational program, and help the colleges and universities to impart this knowledge and keep our investment at home. You are a businessman, aren't you?

Mr. MILLS. Yes.

Mr. PASSMAN. When we raise taxes at the local level, State level, municipal level, or Federal level, the president of a company is going to have to arrive at his board of directors meeting on December 15, with all of these costs considered in his statement, and still have about a 6-percent net profit for the investors. Otherwise he is replaced; isn't he?

Mr. MILLS. Sometimes.

Mr. PASSMAN. They don't let you operate indefinitely with red figures; do they?

Mr. MILLS. Not very long.

Mr. PASSMAN. It is all placed in the costs and passed along to the various customers.

Now let me make the point: Our generosity is definitely pricing us out of the world market. Let's take steel as just one example. It is anticipated now that in 3 years the Japanese will be larger producers of steel than the United States. They have no iron ore in Japan. They have to go abroad. They buy the iron ore and the scrap iron; they pay the freight all the way to Japan; they process it; they pay the freight and the duty back to the United States; and most all of it in stainless steel, they can sell it $35 a ton cheaper than we can buy it from Pittsburgh.

We have just priced ourselves out of the world market.

Why can't you people think in terms of investments in the United States instead of investments abroad?

EARNED SURPLUS

Mr. MILLS. It is the will of Congress that this program be undertaken. Last year, Mr. Chairman, we had a total income of $29 million, expenses of only $2.9 million, resulting in an earned surplus of $26 million. Claims were only $700,000.

Mr. PASSMAN. If you have such a successful operation, why don't you use that surplus instead of asking this committee for more money?

Mr. MILLS. Because our contingent liabilities will, for some further years, require a larger reserve than can be built up solely from our earnings.

Mr. PASSMAN. You answered the question forthrightly earlier, that this legislation, practically all of it is drafted downtown by the bureaucrats. Most of these ideas are thought up downtown and submitted to the Congress. I am not overly impressed when you say the Congress passed it. Sure the Congress passed it, with the urging of the executive branch, as you stated in the opening of the hearing.

PROTECTION OF THE SMALL BUSINESSMAN

Mr. MILLS. The small businessman looks to us, Mr. Chairman, to make prompt payment to him——

Mr. PASSMAN. What small businessman, and where?

Mr. MILLS. Last year 86 percent of the investment projects assisted involved companies that had purchased less than $5 million of insurance each.

Mr. PASSMAN. When did you start thinking of $5 million as being a small investment?

Mr. MILLS. In certain industries it is a very small investment.

Mr. PASSMAN. Don't you think if we turned them loose and let the businessmen work out their own problems they would get along better than to have too much Government interference?

Mr. MILLS. Unfortunately, Mr. Chairman, when I see who the American businessman competes with abroad—he competes against the companies of other developed countries whose governments are assisting their nationals, and we are trying to provide adequate incentives for U.S. companies to invest.

Mr. PASSMAN. If we don't stop giving our wealth away to foreign nations and getting ourselves out on a limb by guaranteeing a lot of these investments, the balance of payments situation is going to get worse. You know and I know when you guarantee these investments the businessman isn't quite as cautious about where he is making these investments and the type of investments he makes.

Mr. MILLS. The businessman in my experience, Mr. Chairman, is a cautious man and he does not invest if he thinks he is going to lose money or be expropriated.

Mr. PASSMAN. He can't lose money. You guarantee him against losses.

Mr. MILLS. The investors have a great deal to lose themselves because, in addition to their bearing all of the commercial risk, we require in large or sensitive projects that they co-insure and carry some of

the political risk themselves. This is a very critical point that we have insisted upon in OPIC's operation of these programs; to make sure the U.S. investor has a substantial stake in the enterprise.

Mr. PASSMAN. To say the least, the AID program as such is a new concept in foreign policy. It really came into being in 1947.

Mr. MILLS. I believe that is correct.

Mr. PASSMAN. And prior to 1947 private industry and private banking would seek out the places where they wanted to make their investments without any U.S. Government interference, wouldn't they, in the main?

Mr. MILLS. In the main, and today we now have 12 other developed nations having similar insurance and financing programs as we do.

TOTAL FOREIGN AID

Mr. PASSMAN. That is saying two wrongs make a right. So many times you attempt to prove your point by saying someone else is doing the same thing.

I am just afraid that somewhere along the way we are going to have to come out of these clouds and look at these programs realistically.

I wouldn't worry too much if we had a good technical aid program because, if you teach people our techniques, they will find a way to employ them. You thought the total foreign aid requested in the budget was $4 billion when it was $13,500 million. It kind of shocked you, didn't it, Mr. President?

Mr. MILLS. That is a particularly large amount.

Mr. PASSMAN. You thought it was about $4 billion and it was over three times that amount and you are a part of the aid program. You come within this broad scope of the 27 spigots of foreign aid and you are a fine businessman, but you didn't know enough about it to get anywhere near the grand total. This is not a reprimand of a brilliant man like you, but I would have thought you people would have done your homework and that you would have known just as much about the all-inclusive figure as I would.

Mr. MILLS. I am only responsible for my small area and in this area we think we are making a substantial and positive contribution to the U.S. economy.

Mr. PASSMAN. I am only responsible in my area too, but one is certainly related to the other, is it not? Could you possibly operate here without actually knowing how the Export-Import Bank, the Inter-American Development Bank, the Asian Development Bank, and the International Development Association operates? Don't you think you should know something about their operation so as to see whether or not there is any conflict or whether there is any duplication?

I say this respectfully. I am not quarreling with you, but it shocks me to find that you have one spigot of this vast foreign aid program and yet you don't know that you have all these others operating more or less in the same field.

FISCAL YEAR 1972 LOANS

Now, what are your total loans going to be in fiscal year 1972? What is your estimate of actual loans?

Mr. MILLS. We have made——

Mr. PASSMAN. I am talking about what you estimate you will make in fiscal year 1972.

Mr. MILLS. Of our direct loans, or private loans we will guarantee?

Mr. PASSMAN. Directly.

Mr. MILLS. We estimate approximately $30 million, although that is obviously subject to change depending upon the number of investment financing applications received.

Mr. PASSMAN. You are going to make $30 million in loans in fiscal year 1972. Who will you make these loans to?

Mr. MILLS. Primarily to projects in which American businessmen are substantially involved.

Mr. PASSMAN. In what countries?

Mr. MILLS. There are no specific contracts signed as of this moment; all we have are preliminary indications of investor interest.

Mr. PASSMAN. Of course you are brand new in business. You have only been in business since January but could you give us an idea of where you are going to make the $30 million in loans? What countries?

Mr. MILLS. Some of the areas we are considering—as I said, we are considering some of these loans for intermediate investment companies who would make them in turn to smaller businessmen.

Mr. PASSMAN. You are giving me a "pie-in-the-sky" estimate. You are trying to use $30 million we don't have. We have to borrow it for you. Do you have any countries you can name?

Mr. MILLS. For instance, PICA operates in several countries in Asia. That is one of the intermediate credit——

Mr. PASSMAN. Asia is a big spot. Where in Asia?

Mr. MILLS. They are located in Japan, but they operate throughout Asia.

Mr. PASSMAN. I know, but what are they going to do? What do you anticipate will be your loans?

Mr. MILLS. PICA has indicated an interest in a $2 million loan they in turn would make a $50,000 loan or a $100,000 loan——

Mr. PASSMAN. What a mess you are going to get us into with that kind of operation.

Everyone that gets $50,000 will be in for a million next time.

Now, who are these people? Let's describe their operation.

Mr. MILLS. The Private Investment Corp. for Asia?

Mr. PASSMAN. This operation you just named?

Mr. MILLS. PICA.

Mr. PASSMAN. Who are they?

Mr. MILLS. It is the Private Investment Corporation for Asia.

Mr. PASSMAN. Private Investment Corporation of Asia. What are they capitalized for?

Mr. MILLS. I don't have that figure, Mr. Chairman. It is still a preliminary indication of interest on their part.

Mr. PASSMAN. What is their total capital account now? That is a brand new one.

Mr. MILLS. PICA is a private group.

Mr. PASSMAN. Who are the officers? Let's pin this one outfit down. Who are they?

Mr. MILLS. They were elected by the board of directors of PICA.

Mr. PASSMAN. I have never met a nicer fellow than you and please forgive me for trying to make a case because it may be that you will agree with me that this thing ought to be abolished before it gets too big. Do you know who the officers are in this outfit?

Mr. MILLS. I will have to supply those for the record.

Mr. PASSMAN. Well, you are asking for $30 million?

Mr. MILLS. We are not asking for $30 million.

Mr. PASSMAN. I am talking about for this program. You are going to make loans of $30 million and this is one little piece of it.

How long have they been in business?

Mr. MILLS. They have been in business for about 2 years, Mr. Chairman.

Mr. PASSMAN. How long, Mr. Director? Have they been making loans out of Federal funds or out of private funds?

Mr. MILLS. Private funds.

Mr. PASSMAN. And they got along all right too, didn't they? Didn't they get along all right before you got into it?

Mr. MILLS. They are trying to get underway and make some loans, Mr. Chairman.

Mr. PASSMAN. It doesn't take that long to get underway, does it? Let's pin this thing down. How long has this outfit been in business?

Mr. MILLS. About 2 years; I don't have the exact time. But I can supply that.

Mr. PASSMAN. What have they been doing during the past several years? Making loans and making a profit on those loans?

Mr. MILLS. They have been reviewing and authorizing projects since being formed about 2 years ago.

Mr. PASSMAN. Then why do we have to get into it with U.S. Government-borrowed funds?

Mr. MILLS. One of the purposes of this Direct Investment Fund is to assist these intermediary investment companies which are helping establish productive, private business.

Mr. PASSMAN. They were doing that before you got into it.

Mr. MILLS. They specifically came to us and requested a long-term loan.

Mr. PASSMAN. Sure they came to you. A lot of others are coming, as easy as these funds are to get. Sure they are going to come.

Now, what is your proposed loan to them?

Mr. MILLS. We are considering a $2 million loan.

Mr. PASSMAN. Now, from that $2 million loan, how many loans are they going to make, would you say?

Mr. MILLS. I have no idea. We would approve the initial loan to PICA and monitor PICA's operations to assure their continued financial stability. We would require that loan proceeds be spent in the United States or other LDC's.

Mr. PASSMAN. You are familiar with the Nixon policy. They no longer have to tie this into U.S. procurement. You are familiar with that?

Mr. MILLS. I am familiar with it but in this particular loan proposal we are specifically requiring that at least half the loan proceeds be spent in the United States.

Mr. PASSMAN. If you have veto over the President, that is all right with me.

Now, let's go ahead.

Mr. MILLS. This is agreeable to PICA and we talked to them at length about this.

Mr. PASSMAN. The chances are they won't have to pay it back, so why shouldn't they come in?

Now, what is the capital structure of PICA?

Mr. MILLS. I don't happen to have it with me, but I will be pleased to supply it.

Mr. PASSMAN. I know you will but some of these supporting witnesses must know something about it. You have them down for a $2 million loan. To me that is a lot of money.

Mr. MILLS. This is simply a project in process of being analyzed.

Mr. PASSMAN. Are they operating as a part of the free enterprise system? Is it a private loan-making organization?

Mr. MILLS. It is a private loan-making organization and they lend at commercial rates.

Mr. PASSMAN. They try to make a profit, don't they?

Mr. MILLS. That is correct.

Mr. PASSMAN. Why don't you leave them alone and let them pursue it like they always have until we can get our economy under control because, Mr. President, from little acorns big trees grow. I have seen these things branch out.

Now, you are going to operate in Asia, are you not?

Mr. MILLS. We are going to operate in Asia, and an excellent way to operate in Asia is through private investment companies such as PICA.

Mr. PASSMAN. Are they going to operate in Asia?

Mr. MILLS. They will operate in Asia with private corporations and we are considering lending to them so we have the full security of PICA.

Mr. PASSMAN. Mr. Director, out of 4,416 foreign aid projects scattered in 99 nations and four territories of the world, not one foreign aid project of any kind, shape, or fashion has been canceled under any of the Presidential freeze orders. Do you realize right here in our own country you can't get a direct loan from the Small Business Administration. There are but two types of loans they will look at. One is that the bank will furnish all the money and they will guarantee up to 90 percent of the loan, and two is that the bank participate and put up 25 percent of the loan. You try to get a direct loan from them and it is impossible. But here you have a brand new agency and will scatter money all over the world. This is just a little bit, this $30 million, of the total $13.5 billion for foreign aid, and to think we are depriving our own people in this country of loan funds.

FISCAL YEAR 1972 BUDGET REQUEST

Now, that is $2 million. Let's get into the other $28 million.

Mr. ROYBAL. Mr. Chairman, I thought they were asking for $25 million.

Mr. MILLS. What we are requesting is $25 million for reserves. We originally had in the budget a request for $20 million additional capitalization to be used for the Direct Investment Fund. Upon reviewing the program, we decided to defer the request because we did not need it at this time.

What the chairman is talking about, is that OPIC has a capitalization of $40 million which was to be put into a fund called the Direct Investment Fund. The reason we deferred the $20 million request for that fund was because we have not committed any of the $40 million and I did not feel we should spend it until we had worthwhile projects. We are looking at a number of project proposals, most of them are expressions of investor interest and have not reached formal application stage. No final decisions have been made on any proposals and that is the reason why we deferred that $20 million request for this year. If we spend more on good projects which we think are worthwhile, then we will come back next year for more. The Congress originally was asked to give the Corporation a capitalization of $100 million. It may take us several years to get there. As a prudent businessman, I do not want to rush into these projects without knowing a great deal about them and without having a chance to make sure that we make sound loans.

CAPITAL FUND PROVIDED AND NOT USED

Mr. PASSMAN. Let's get the record straight. Money was authorized you didn't need. We gave you $20 million in 1970 and $20 million in 1971 from transfers out of the AID Agency into your account, did we not?

Mr. DICKERSON. Yes.

Mr. PASSMAN. It was not a direct appropriation, but it came out of the AID Agency?

Mr. MILLS. Out of the re-flows of principal and interest paid on previous AID development loans.

Mr. PASSMAN. I don't know what you mean by "re-flows." It came out of the AID Agency, did it not?

Mr. MILLS. These are repayments on loans that had been made previously by AID and were being repaid to AID. A portion of these funds totaling $40 million were appropriated as capital of the Corporation. This capital in turn is to be reused by OPIC for making additional loans on competitive terms under the direct investment——

Mr. PASSMAN. Mr. Director, you are not answering my question. Is it not correct that this committee, supporting AID's request, made it possible for AID to provide you with $40 million in capital? Twenty million dollars in fiscal year 1970 and $20 in fiscal year 1971?

Mr. MILLS. That is correct.

Mr. PASSMAN. You had no use for the $20 million and that is why you canceled it?

Mr. MILLS. It was a prudent business judgment.

Mr. PASSMAN. Every one of these things might be, but the fact is that you had no need for it, is that correct?

Mr. MILLS. There were several reasons. For instance, OPIC has only been established——

Mr. PASSMAN. Let's make a positive record. You had no legitimate need for this money and therefore you asked that $20 million be deleted, is that correct?

Mr. MILLS. Mr. Chairman, OPIC has only been established for 3 months.

Mr. PASSMAN. I know, and to sit here and talk to you, you would think you had been in business for 20 years.

The fact is that the request was a wild guess and in excess of your needs in fiscal year 1970 and fiscal year 1971?

Mr. MILLS. No. I feel because of the delays that were caused by OPIC not being created until January 1971——

Mr. PASSMAN. Well, isn't that the same difference, Mr. Director, that you were not prepared to utilize it?

Mr. MILLS. It was a combination of factors. It was due to the fact that business turned down last year——

Mr. PASSMAN. Let's say you have 50 factors. Nevertheless, the ultimate answer is that you had no legitimate use for the $40 million provided and herefore the additional $20 million was cut back.

Mr. MILLS. There were no projects which we felt were ready for approval, so we didn't commit the money.

Mr. PASSMAN. I am not trying to put words in your mouth, but I say the ultimate answer is that you could not employ the $40 million in keeping with the guidelines you are following?

Mr. MILLS. Prudently.

Mr. PASSMAN. What is the difference? Are you going to give me an answer? You don't need it, do you?

Mr. MILLS. We certainly needed capital for OPIC.

Mr. PASSMAN. Why did you cut it back if you needed it then?

Mr. MILLS. We didn't cut back the existing $40 million of capital. Much of that will possibly be used next year. We cut out the original budget request for an additional $20 million.

Mr. PASSMAN. It is because you didn't need the funds that you did that?

Mr. MILLS. I thought it was prudent——

Mr. PASSMAN. It may have been super-duper-prudent, but you didn't need it?

Mr. MILLS. I didn't think we could spend it wisely.

Mr. PASSMAN. Don't make it so hard to work for an answer. I am not in love with this program. I know this is a duplication of other programs that performed the same function until you people got involved in it. We kept this darned thing under control for 15 years. As we said earlier, and you verified, that one year you came in and asked for $180 million and we gave you $30 million and you were still overfunded.

UNRESTRICTED AID

If I recall correctly, the President's message of September 15 indicated that he was going to eliminate the tying restrictions on procurement of goods. Are you familiar with the President's message?

Mr. MILLS. I am, Mr. Chairman.

Mr. PASSMAN. Has he reversed himself and rescinded that statement or is your operation the exception?

Mr. MILLS. No, to my knowledge he has not reversed himself.

POSSIBLE LOANS IN FISCAL YEAR 1972

Mr. PASSMAN. You can visualize that this private, profitmaking little outfit over in Japan was operating nicely until they found out

they could get money from Uncle Sam, and now they are going to get a $2 million loan and you don't know anything about it and I know less.

Now, how about the other $28 million? Can you name some of the places where it may go?

Mr. MILLS. We have received a proposal for a project in Indonesia.

Mr. PASSMAN. What is the name of the company?

Mr. MILLS. United Coconut.

Mr. PASSMAN. Is that a private company operating for a profit in the private sector?

Mr. MILLS. Yes; it is.

Mr. PASSMAN. A U.S. firm?

Mr. MILLS. Yes, Mr. Chairman.

Mr. PASSMAN. How long have they been in business?

Mr. MILLS. I do not know exactly.

Mr. PASSMAN. What is the loan you are making to them?

Mr. MILLS. The loan request is about $400,000.

Mr. PASSMAN. What are they going to do with the $400,000?

Mr. MILLS. To dry and process coconuts.

Mr. PASSMAN. Have they been operating in previous years?

Mr. MILLS. If they did not have the experience, were not experienced businessmen in the coconut business, Mr. Chairman, we would not make the loan.

Mr. PASSMAN. How long have they been in business? What is their capital? Who are the officers?

Mr. MILLS. I do not have that information with me.

Mr. PASSMAN. What is the parent company in America?

Mr. MILLS. That information I don't have.

Mr. PASSMAN. All right, what is the next one?

Mr. MILLS. We have received a proposal for a project in Ethiopia for dairy and livestock production.

Mr. PASSMAN. How long have they been in business?

Mr. MILLS. That is for an estimated $300,000.

Mr. PASSMAN. How long have they been in business?

Mr. MILLS. My figures don't show.

Mr. PASSMAN. We have to get some information. You are asking this committee to appropriate money. You are a fine man but we are elected to represent 206 million Americans. We are their spokesmen, we are their voice and they expect us, you understand, to find out where this money is going because they don't like this deficit financing; they don't like this public debt. Now, is this an American firm?

Mr. MILLS. Our general policy on individual project lending is to lend to projects where there is substantial American participation.

Mr. PASSMAN. If you are going to get the money we have to know where it is going.

We have covered about $2,700,000. Who is the next one?

Mr. MILLS. ADELA, which is another private intermediate financing institution, has requested a loan.

Mr. PASSMAN. Operating as bankers?

Mr. MILLS. As investment bankers in Latin America.

Mr. PASSMAN. What countries?

Mr. MILLS. Throughout the Caribbean and Latin America.

Mr. PASSMAN. That is free enterprise?

Mr. MILLS. That is free enterprise.

Mr. PASSMAN. Is it going to be banking or what is it?

Mr. MILLS. They lend in turn to smaller projects.

Mr. PASSMAN. In other words they act like little loan companies around the corner who can charge 3.5 percent a month. What is the interest rate to these small borrowers?

Mr. MILLS. The purpose is to assist private enterprise obtain loans that are not at excessive interest rates.

Mr. PASSMAN. The interest rates in Latin America are 2.5 times what they are in the States. Some of the building and loans pay up to 18 percent to their borrowers.

Mr. MILLS. In certain countries.

Mr. PASSMAN. Yes. Let's get this down. I want to know what pot they are going to operate in. What is the amount?

Mr. MILLS. They may request between $2 and $4 million.

Mr. PASSMAN. A pretty broad gap there, isn't it?

Mr. MILLS. Yes, sir, it is a preliminary estimate——

Mr. PASSMAN. Who are these people? What is the name of the company?

Mr. MILLS. ADELA.

Mr. PASSMAN. What is it an abbreviation for?

Mr. DICKERSON. The Atlantic Development Company for Latin America.

Mr. PASSMAN. When did they go into business?

Mr. MILLS. They have been in business for a number of years.

Mr. PASSMAN. Operating successfully?

Mr. MILLS. Operating successfully.

Mr. PASSMAN. Doing the same thing with their own capital that they will do with U.S. capital?

Mr. MILLS. As does PICA in East Asia.

Mr. PASSMAN. They have been doing what Uncle Sam now wants to do for them?

Mr. MILLS. They have been trying to raise additional long-term capital so they can continue to help private industry.

Mr. PASSMAN. Now they are going to get capital that we are going to borrow for them. Is it going to replace what they have been doing with their own capital?

Mr. MILLS. No; it is long-term capital which they have advised us they cannot obtain elsewhere.

Mr. PASSMAN. What were they capitalized for originally?

Mr. MILLS. I do not have the figure. It is a large corporation.

Mr. PASSMAN. Some of your supporting witnesses might have that. So far you haven't told us anything about these projects other than that they are in the making.

Mr. MILLS. As an ex-investment banker, I can assure you when these companies make a formal loan application we look very carefully at them.

Mr. PASSMAN. I would expect that but that doesn't satisfy us. We want to know what they are.

You are bound to have some information on them. Don't ask us to give you this money on blind faith.

Mr. MILLS. Their issued capital stock is approximately $51 million.

Mr. PASSMAN. How much do they want from you, from $2 million to $4 million?

Mr. MILLS. That is what they have indicated to us, Mr. Chairman.

Mr. PASSMAN. Now, isn't that really something? You are going to get those people accustomed to this easy money. In all probability you will foul up their operation.

Mr. MILLS. This is not easy money. This is being lent by us on competitive terms.

Mr. PASSMAN. I am very familiar with how AID money operates and I have my right to interpret the type of loans usually made and you have a right to place your interpretation on them. You said they are capitalized at $50 million?

Mr. MILLS. That is correct.

Mr. PASSMAN. How long have they been in business?

Mr. MILLS. They have a 6-year summary here, so they have been in business at least 6 years.

Mr. PASSMAN. It is too bad you can't leave them alone.

Now, you have accounted for about $3.7 million.

Mr. ROYBAL. It is very hard to understand how a company that is worth $50 million to begin with does not know whether they need or they want $2, $3 or $4 million. When are they going to make up their minds as to what they want? Do they want $2 million or do they want $4 million?

Mr. MILLS. As I understand this particular request, discussion began approximately a year ago when interest rates were very high and business was turning down. Business in Latin America has changed. I think the request was originally for four and it may have been scaled down to two. We are reviewing this to see what the real needs for this money are and what the money will be used for.

Our review process takes into consideration many factors and this request has been under consideration for some time.

I think the record shows we were considering this loan last year, Mr. Chairman.

Mr. PASSMAN. Aren't you an investment banker?

Mr. MILLS. I was an investment banker.

Mr. PASSMAN. If a company is worth $51 million, I wouldn't think they would have to come to one of the spigots of U.S. foreign aid to get $2 million or $4 million. They could step out and get all the money they need.

Why does your government and my government have to get involved in everything everywhere all over the world, Mr. President? With that kind of capitalization, these people could borrow all the money they wanted to.

I don't know why you people have to get into it. I am willing to go along with some of the banks and loan funds, but we are getting so many of these loan accounts set up that we will never be able to control them.

Some day you will know how much they need. Now, what is the next one?

Mr. MILLS. We have received a proposal for a project in Ghana for inland cold storage for freezers, setting up a freezing plant there for $1,125,000.

Mr. PASSMAN. In Ghana?

Mr. MILLS. Yes.

Mr. PASSMAN. I think in our total aid we have had under the AID agency various types of projects in Ghana, under the long-term development program and they make grants and loans for the same thing, don't they?

Mr. MILLS. Not for the same thing. They now make government-to-government loans. We make it only to private concerns.

Mr. PASSMAN. Now, you are going over in Ghana proposing to make a $1.12 million loan?

Mr. MILLS. Potentially, yes.

Mr. PASSMAN. That is for cold storage?

Mr. MILLS. That is what is proposed.

Mr. PASSMAN. And do you realize that the same man down in California that wants the same amount of money from the Small Business Administration to put in the same type of installation, couldn't even get an application to file for it. Do you realize that?

Mr. MILLS. I understand the program——

Mr. PASSMAN. You haven't answered my question, Mr. President. Do you realize this same man in California or in Louisiana could apply to the Small Business Administration for a $1.12 million loan to do the same thing and they won't even give him an application to file.

Mr. MILLS. I don't know what the policies of the Small Business Administration are.

Mr. PASSMAN. I am making a statement of fact. This is supposed to help small business in this country and they can't get a nickel. I'm sure that you know that. It is like trying to pull teeth.

Is this cold storage plant going to be operated in Ghana by Americans?

Mr. MILLS. By Americans.

Mr. PASSMAN. In Ghana?

Mr. MILLS. Yes, sir.

Mr. PASSMAN. What a strange thing that is going to be. An American businessman is going to be transplanted to Ghana to set up a cold storage plant. What is he going to do with it?

Mr. MILLS. They are going to freeze food.

Mr. PASSMAN. Next. Let's move along.

Mr. MILLS. The next potential one we have is a proposal for an investment in olive production in Morocco.

Mr. PASSMAN. Olive production in Morocco. Now that is also an American company organizing to process olives. How much do they want?

Mr. MILLS. They have indicated need for a loan of about $1 million.

Mr. PASSMAN. Who are these people?

Mr. MILLS. It is Early California Foods Corporation.

Mr. PASSMAN. Are they brand new in business?

Mr. MILLS. Mr. Chairman, all of these requests we review very carefully. They must be experienced businessmen.

Mr. PASSMAN. I know you review it very carefully, but you haven't answered my question. Are they new in business or is it an old company?

Mr. MILLS. I, as a prudent businessman, would not lend them any money unless they had a proven management record and proven profitability.

Mr. PASSMAN. That is terrific. I am a prudent businessman, too, in the eyes of some people, but I still want to know how long they have been in business and if you know whether or not they could succeed in processing olives in Morocco. My Government has to borrow this money you people are going to pass out.

Mr. MILLS. If I felt they could not operate and make a profit, I would not make them a loan.

SCREENING OF LOAN REQUESTS

Mr. PASSMAN. I know that, but I want the proof, Mr. President. You are asking this committee to give you money. How long have they been in business? Does anybody know?

Mr. MILLS. I would insist upon having the same proof you are suggesting before I approved any project. I assure you, Mr. Chairman, before any of these projects are approved, all this information is known.

Mr. PASSMAN. Let me tell you something now as a prudent businessman. If you operate a corner filling station with two attendants and operate it on a cash basis, those two attendants would have to make 60 percent of all the decisions.

We have gone around the world. How are you going to be able to know about all this? Aren't you going to have to depend on your subordinates?

Mr. MILLS. We will have people who go out to the field to assess each project.

Mr. PASSMAN. You put your initials on things. You can't go into all these countries and inspect these projects and go into the record as to who these people are, what their capital is, and what their background is. You just couldn't do it.

Mr. MILLS. All our projects first of all are screened by our loan officers.

Mr. PASSMAN. By subordinates?

Mr. MILLS. And then they come to the investment committee, of which I am a member, and we personally review every project——

Mr. PASSMAN. Am I correct in saying they are subordinates?

Mr. MILLS. Not only do I screen it and approve it, but every financing project now comes before the board of directors of our corporation. This is one of the requirements.

Mr. PASSMAN. You are stressing a board of directors. These people are just more bureaucrats like we are, working for the Government, are they not?

Mr. MILLS.. No; there are six private members on our board.

Mr. PASSMAN. Private men, and they run their own businesses?

Mr. MILLS. They run their own businesses and ask exactly the same sort of questions that you do.

Mr. PASSMAN. When you come in administering this kind of money, you work on it full time. Are these some of these honorary members that you bring in to approve what you put down?

Mr. MILLS. They ask exactly the same kind of questions you do and much harder questions, Mr. Chairman.

Mr. PASSMAN. You have covered the world and it comes right back to this, that you rely upon your subordinates as to whether these projects are good or bad, don't you?

Mr. MILLS. I rely upon subordinates to accumulate the facts.

Mr. PASSMAN. How do you know they are facts if you haven't been out there to see?

Mr. MILLS. For instance, we require audits and I presume the audits are correct.

Mr. PASSMAN. You haven't answered one of my questions in the affirmative. You have covered the entire ball park. You know where these people are going to be. You don't know how long they have been in business; you don't know what their capital is; you don't know whether they have operated at a profit in the past.

Mr. MILLS. All of this information we obtain and put into a very detailed analysis of every project which answers your points, and why——

Mr. PASSMAN. How could you have all that when you only went into business in January 1971, 90 days ago? How long have you been with the agency as president?

Mr. MILLS. Only 3 months, but the staff has been——

Mr. PASSMAN. You really got on top of this thing in a hurry.

Mr. MILLS. But some of my staff have been here for several years.

Mr. PASSMAN. Now you have answered my question. You do look to the former staff?

Mr. MILLS. They accumulate the information for me.

POSSIBLE LOAN PROJECT

Mr. PASSMAN. What is the next one?

Mr. MILLS. Next is a container plant of St. Regis Paper Co. in Nicaragua for $1 million. On this one I personally have had some preliminary discussions.

Mr. PASSMAN. You mean you haven't had preliminary discussions on the others?

Mr. MILLS. This is in a more advanced stage.

Mr. PASSMAN. More in the advanced preliminary stage?

Mr. MILLS. A more advanced stage.

Mr. PASSMAN. I gained the impression you were on top of all this. Now we get down to the best one you have and it is only in the preliminary stage. You gave us a good answer. What are they going to do?

Mr. MILLS. They are going to build a container plant to make boxes and cardboard liners. This will result in $40 million of exports from the United States.

Mr. PASSMAN. How much do they want?

Mr. MILLS. They are considering asking for $1 million.

Mr. PASSMAN. Where are they going to get the other capital?

Mr. MILLS. In all these projects, Mr. Chairman, I want to emphasize that the investor has a great deal at risk. We don't supply all the money.

Mr. PASSMAN. These people are big enough where they are going to handle $40 million of exports from the United States?

Mr. MILLS. These are exports from the United States to Nicaragua.

Mr. PASSMAN. Is it true it takes $2.10 in capital to handle a dollar's worth of exports or imports in that business?

Mr. MILLS. I have no figures on that.

Mr. PASSMAN. If that be true, then it would have to be capitalized at $80 million to be able——

Mr. MILLS. This is over a 10-year period that they estimate the $40 million of exports.

Mr. PASSMAN. That is an estimate. How much per year?

Mr. MILLS. $4 million per year.

Mr. PASSMAN. What is their capital, Mr. Director?

Mr. MILLS. The total capital of this corporation will be roughly $2.5 million.

Mr. PASSMAN. How much do they have now paid in?

Mr. MILLS. They have approximately paid in about $1 million.

Mr. PASSMAN. Is it a brand new firm?

Mr. MILLS. It is a firm they have taken over.

Mr. PASSMAN. They are going to continue the same packing operation?

Mr. MILLS. They are going to put in new equipment and bring in new management.

Mr. PASSMAN. I am talking about the commodity. Is it going to be the same?

Mr. MILLS. The commodity is going to be the same.

Mr. PASSMAN. Where is the proof this one is going to succeed if the old one failed?

Mr. MILLS. The answer is, Mr. Chairman, in what you ask so wisely, is the management of the company; what is their experience? Do they have a record of success?

Mr. PASSMAN. Did you make a loan to the older company?

Mr. MILLS. No; we did not.

Mr. PASSMAN. Why don't you let these people move in on their own, make a success, and then look at it?

I have heard these old stories before. "He failed but I won't." Then he would fail and another one would come in.

Mr. MILLS. On this particular project we are requesting that our loan be guaranteed, so that we are taking the prudent——

Mr. PASSMAN. Guaranteed by whom?

Mr. MILLS. By a Nicaraguan bank.

Mr. PASSMAN. I thought you were doing the guaranteeing rather than having others guarantee?

Mr. MILLS. We are, but we are requesting guarantees and additional security under certain circumstances.

Mr. PASSMAN. Now, you and I are going to be good friends. We are both out of the free enterprise sector. You have to give some kind of answers. You haven't had an opportunity to analyze any of these loans properly because I happen to be on the board of directors of a bank and I know how long it takes to analyze an application involving even $25,000, much less a million dollars.

Now, what is the next one?

Mr. MILLS. I simply wanted to reassure you, Mr. Chairman, that what I am trying to say is that we are taking very great care.

Mr. PASSMAN. All the talk about operating on a prudent basis—I have been hearing that ever since I have been on this committee for 19 years and it doesn't work out that way. If yours does, it will be the exception.

Mr. MILLS. We hope we can exercise——

Mr. PASSMAN. Let's get down to the facts of life. You hope and I hope too.

What is the next one?

PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORP.

Mr. MILLS. We have received an indication of interest from the Pakistan Industrial Credit and Investment Corp. A request for $4 million.

Mr. PASSMAN. Is this company already in business?

Mr. MILLS. This is an industrial bank which is in business.

Mr. PASSMAN. Operating in the free enterprise sector?

Mr. MILLS. Yes.

Mr. PASSMAN. What is their capital?

Mr MILLS. I don't have that figure with me, Mr. Chairman.

Mr. PASSMAN. Are you going to furnish all the capital or is it a going business at this time?

Mr. MILLS. I just don't have that information.

Mr. PASSMAN. Would some of your supporting witnesses have it? We are going to have to mark this bill up based upon what you have given us and so far you haven't given us enough information to get you $25. Can you get more information on the projects?

Mr. MILLS. We would be pleased to, Mr. Chairman.

Mr. PASSMAN. Again we are dealing with Americans investing U.S. money abroad. Is it just that simple?

Mr. MILLS. In this particular case this is a private investment company—this will probably be owned by private people in Pakistan——

Mr. PASSMAN. Aren't you invading AID territory now?

Mr. MILLS. No.

Mr. PASSMAN. I thought it was U.S. investors abroad. Now you are going to make loans to the Pakistanis?

Mr. MILLS. The legislation permits OPIC to lend to local private borrowers.

Mr. PASSMAN. How many projects do you have going in Pakistan?

Mr. MILLS. This project proposal is only a request. No application has been received yet.

Mr. PASSMAN. For how much?

Mr. MILLS. $4 million may be requested.

Mr. PASSMAN. You do know we have already given Pakistan over $3 billion and in this overall AID bill they are going to ask for another $100 million. Why do you have to provide your little $4 million? Don't you think you could afford to stay out? Why should we get the United States involved? From little acorns big trees grow.

We held this thing down for years. There has never been an agency that exaggerated their needs any more than this one and that is why we are trying to have a thorough examination.

How many other applications do you have for foreign corporations that you will make loans to?

INDUSTRIAL CREDIT INVESTMENT CORP. OF INDIA

Mr. MILLS. I think there is a request, but not an application, from the Industrial Credit Investment Corp. of India.

Mr. PASSMAN. How much?

Mr. MILLS. That is another possible $4 million.

Mr. PASSMAN. And you know, of course, our aid to India has been in excess of $7 billion and there is about $200 million in the bill for India this year.

Why do you have to get in with this little tidbit?

Mr. MILLS. Again we are trying to help the private sector and that is my job.

Mr. PASSMAN. We have to borrow this money. I know how these people operate. This thing will be a billion dollars in a few years if we don't abolish it.

What kind of company is that?

Mr. MILLS. That is another industrial development investment company.

Mr. PASSMAN. In other words, it is another finance company?

Mr. MILLS. It is an intermediate credit institution to help private industry——

Mr. PASSMAN. I know what it is to help but it is another loan agency or bank or something that will open up for business to make a profit and people are going to apply to them for loans.

Mr. MILLS. This is correct and this is one way for us to get long-term credit to the small businessman.

Mr. PASSMAN. We hear about the small businessman and the underprivileged poor people. I have listened to that until it is about to drive me crazy.

Now, where are these people? Who are they?

Mr. MILLS. In India.

Mr. PASSMAN. Do you know who they are?

Mr. MILLS. I do not have information with me other than what I have given you.

Mr. PASSMAN. That simply means when you set this up you have to have a disbursing agent out there?

Mr. MILLS. We would have an explicit loan agreement with them and would monitor their compliance with its terms.

Mr. PASSMAN. You are going to supervise it and evaluate it in Washington?

Mr. MILLS. Yes; this is what the IFC does, Mr. Chairman.

Mr. PASSMAN. I am talking about what you do. You are going to make a $4 million loan. Who is going to service that loan?

Mr. MILLS. First of all, we have their credit then we have the credit of that institution.

Mr. PASSMAN. You mean a private institution is opening up a lending agency to make a profit? We are in accord on that, aren't we? Are we in accord? Is that the purpose?

Mr. MILLS. They are in business to make a profit; yes.

Mr. PASSMAN. They are operating in the free enterprise sector?

Mr. MILLS. Yes.

Mr. PASSMAN. Who is going to service and supervise this loan once it is made?

Mr. MILLS. They themselves supervise and service it. That is one of the reasons we use these intermediate institutions, so we do not——

Mr. PASSMAN. What do you mean intermediate institutions?

Mr. MILLS. We do not have an office abroad which, of course, we are not allowed to.

Mr. PASSMAN. You are going to make them a $4 million loan and you only have to look at the company and if they fail and lose the $4 million you don't have to go out and run down 700 people who may have borrowed money from them?

Mr. MILLS. We have their credit and under them is the credit of the projects.

Mr. PASSMAN. How does their credit rate?

Mr. MILLS. I haven't got that information here.

Mr. PASSMAN. You are just using it in the abstract, aren't you?

Mr. MILLS. I am giving it as an illustration of the kind of projects we are considering.

Mr. PASSMAN. I know you have to give some answers and you are doing pretty well. So far you have gotten up to $50, and I would give you that just because you are a nice fellow, when I have to mark the bill up.

We are making loans to American investors abroad. What other loans are you considering?

INTERNATIONAL BASIC ECONOMY CORPORATION

Mr. MILLS. We have talked with the International Basic Economy Corporation.

Mr. PASSMAN. Where are they domiciled?

Mr. MILLS. They are in New York and they are setting up a subsidiary. They, as you know, invest in Latin America.

Mr. PASSMAN. I am afraid I don't know. Who are they? What is their capitalization?

Mr. MILLS. I don't have this. I don't have their annual report but they are setting up a special subsidiary to invest in Latin America——

Mr. PASSMAN. All that sounds good for the record, but let's get it down to actual facts.

They are again operating in the free enterprise sector. Not for charity, but for profit.

Mr. MILLS. That is true.

Mr. PASSMAN. Where are they capitalized and for how much?

Mr. MILLS. I will have to supply that for the record, Mr. Chairman.

Mr. PASSMAN. Do you have any information you can offer?

Mr. DICKERSON. It would have to be supplied for the record, Mr. Chairman.

Mr. PASSMAN. How much do you want to let them have?

Mr. MILLS. They are talking to us, Mr. Chairman, about $3 million.

Mr. PASSMAN. What are they going to do with it?

Mr. MILLS. This would be a project where we would invest in companies in Latin America through IBEC.

Mr. PASSMAN. By "we" you mean the company that set up shop to make a profit and the United States? They are going to invest money we let them have in Latin America?

Mr. MILLS. Again, IBEC would be an intermediate institution through which OPIC could work in Latin America.

Mr. PASSMAN. That is what you said. Isn't that the way it operates? They are going to borrow U.S. dollars to operate purely at a profit. What kind of loans will they make?

Mr. MILLS. They haven't submitted us the request yet, but in this particular case I believe they intend going to secure this money or this loan by some assets which they already have in Latin America which are very profitable.

Mr. PASSMAN. What if you find out these people are capitalized for 20 times what they are asking you for? Don't you think you should back away from it?

Mr. MILLS. We are requiring them to give us 2 to 1 security.

Mr. PASSMAN. Couldn't they go out on the market and get this money?

You have looked at one that had capital of $51 million and they want $1 million. You say it is on a 2 to 1 basis. They would have to have $2 million to get $1 million?

Mr. MILLS. Possibly.

Mr. PASSMAN. Don't you think with $2 million in assets they could borrow money from commercial banks?

Mr. MILLS. They may be borrowing some short term funds, but they have told us they cannot borrow long term funds on reasonable terms, Mr. Chairman.

Mr. PASSMAN. And they are just trying to get in on this easy money?

Mr. MILLS. No, Mr. Chairman, my money is not easy money. It is loaned at commercial rates.

Mr. PASSMAN. You are going to make me suspicious if you keep saying that.

Any other loans abroad?

Mr. MILLS. This is the preliminary list of potential projects.

REQUEST FOR FINANCIAL STATEMENTS

Mr. ROYBAL. Mr. Chairman, at that particular point wouldn't it be proper to ask for the financial statements of these companies?

Mr. PASSMAN. Yes, I believe so. We are starting off with a little agency—and the most permanent thing in Washington is a temporary agency and the biggest thing in Washington is an agency that starts small.

We want a financial statement on every firm, where they are domiciled, how long they have been in business, and we are going to have it. If the committee will back me you are not going to get a dime until we have an opportunity to look at the financial structure of every one

of these companies. Now, that is what we are asking and you will appreciate it at a later time. We have to start this agency off right.

Mr. MILLS. Mr. Chairman, I think this suggestion is very interesting. These are requests and if we reject the request for some reason, I don't want to bother the committee with it.

Mr. PASSMAN. What do you mean "bother the committee?" Listen, Mr. President, you have asked this committee for $30 million.

Mr. MILLS. No, we asked the committee for $25 million of reserves to back up our insurance and guarantee program.

Mr. PASSMAN. Whatever you do, you propose to spend 30 million U.S. dollars. This is not your money, but it is U.S. dollars, regardless of where it comes from.

You have projected an expenditure of $30 million for loans. We want a Dun & Bradstreet statement for each project. Undoubtedly you are not going to make these loans until you get a Dun & Bradstreet statement.

Mr. MILLS. We will be pleased to supply Dun & Bradstreet reports or equivalent on each one of the potential borrowers I have mentioned.

Mr. PASSMAN. Let us not forget those statements.

Mr. MILLS. Would Dun & Bradstreet be satisfactory?

Mr. PASSMAN. That would be fine.

NEED FOR RESERVES

You mention in your justifications that the small and medium-size investors need assurances that claims would be promptly paid and they could not wait for congressional action. Do you know of anything that is any better than the good faith and credit of the United States?

Mr. MILLS. No, Mr. Chairman, I do not.

Mr. PASSMAN. Thank you very much.

Mr. MILLS. We do not have enough reserves to meet some of these claims if they should arise, and that is why we feel that a modest increase of $25 million is required.

Mr. PASSMAN. Are these reserves frozen to where you cannot use them?

Mr. MILLS. They cannot be used for any purpose other than payment of claims. Under the law we have to allocate them between the insurance reserve and guarantee reserve and the Board has so allocated $70 million each to the insurance and guarantee reserves.

Mr. PASSMAN. I understand it. I am the one who tried to block the legislation. You are saying to me that even though you have the good faith and credit of the United States backing you up, that these people want us to appropriate the money so if they have a claim they can get it tomorrow and not have to wait for action by the Government.

Mr. MILLS. If there is a war, or if there is an inconvertibility claim we are required to make prompt payment.

Mr. PASSMAN. But you haven't answered a single question I have asked you today. You do not intentionally evade these questions, I know. Actually, so far as the U.S. creditor is concerned, the good faith and credit of his money is just as good as if the money had been appropriated to pay it, is that correct?

Mr. MILLS. Not entirely, it is like an insurance company, Mr. Chairman. I had last year two fires and I am still waiting payment on my claims.

Mr. PASSMAN. It is not because the insurance company doesn't have the money. You have to establish the validity of the claim, don't you?

Mr. MILLS. That is correct.

Mr. PASSMAN. OK. If you establish the validity of a claim against the United States, can't you be assured the U.S. Government will pay the claim?

Mr. MILLS. But if we don't have the cash reserves we would still have to come to Congress for appropriations after the validity and amount of the claim was established.

Mr. PASSMAN. What is wrong with that? That would make you a more prudent operator.

This is a hypothetical example. You have $400 million in guarantees backed by the good faith and credit of the United States and you have to have $100 million backing that up.

Mr. MILLS. Time is money to an investor, as you know, Mr. Chairman.

Mr. PASSMAN. Is that what you have to have, 25 percent or $100 million?

Mr. MILLS. For the guaranty program, we do have to have a 25 percent fractional reserve.

Mr. PASSMAN. Why don't you give me a direct answer so people who are not an intellectual like you are can understand it?

You guarantee $400 million. Now, under the law that you prodded the Congress into passing, that simply means that you have to have under the present law as you interpret it, $100 million in appropriated funds on hand?

Mr. MILLS. That is correct.

Mr. PASSMAN. Can you use any part of that $100 million for anything or is it completely frozen?

Mr. MILLS. No; it is frozen, Mr. Chairman.

Mr. PASSMAN. But if you happen to get hard pressed, which in all probability you will, then you could dig into that $100 million in a hurry, couldn't you?

Mr. MILLS. We could use it only to pay guaranty losses.

Mr. PASSMAN. Well, I would hope you wouldn't dig into it unless you had losses. I said if you got careless. You are a prudent businessman, but if you ceased to be a prudent businessman and became too lax and a lot of these loans defaulted, you could deplete that fund in a hurry. But if you had it under more strict regulations where they were backed up by the good faith and credit of the United States and you would consider one claim at a time by this Congress as we do on private bills, you understand, I think it would be a better operation. We don't have any reserves with which to pay the veterans' pensions. We don't have any reserves with which to pay the civil service retirement pensions. We have no reserves to pay this $51 million a day for interest on the public debt. Did you know it was that much?

Mr. MILLS. It is a lot of money.

Mr. PASSMAN. It sure is a lot of money. That is why we are trying to help you abolish this operation before it gets out of proportion to the services rendered.

USE OF CAPITAL FUNDS PROVIDED

This is a rehash. It is good for the record.

None of the $40 million provided to the capital account by transfer has yet been committed to finance loans anywhere, is that correct?

Mr. MILLS. That is correct, Mr. Chairman.

Mr. PASSMAN. Have they been transferred from AID over to this new account?

Mr. MILLS. Yes.

Mr. PASSMAN. Have they been invested or are they just subject to be used?

Mr. MILLS. Subject to be used, Mr. Chairman. When we have projects approved by the Board.

Mr. PASSMAN. I hope you wouldn't disburse it until the projects are approved. You are not suggesting that, are you?

Mr. MILLS. I just want to emphasize that we have a whole set of checks and balances to make sure this is a prudently run organization.

Mr. PASSMAN. You have only been down there 90 days. Don't become an expert so quickly. You are going to make me very suspicious of you if you don't stop being so defensive.

I have been on this committee for 19 years and chairman 17 years and I don't know as much about it as you say you know.

Mr. MILLS. I am sure you know a lot more, Mr. Chairman.

Mr. PASSMAN. You are so far ahead of me I don't think I could see you with binoculars.

ADDITIONAL FUNDS FOR AID

Now, since the funds for capitalization come from the AID program, it would appear that they would have an additional $20 million on hand which they were not counting on when the fiscal year 1972 budget was submitted, is that correct?

Mr. MILLS. Mr. Chairman, I believe that would be correct.

Mr. PASSMAN. Would you take out that one word?

This man has been with us so long he has gray hair. May I ask him one question?

Mr. MILLS. Please do.

Mr. PASSMAN. Is that correct?

Mr. DICKERSON. The $20 million would revert to AID for its purposes.

Mr. PASSMAN. How could it revert to them when it hasn't gone to your operation yet?

Since the funds for capitalization come from the AID program, it would appear that they would have an additional $20 million on hand which they were not counting on when the fiscal year 1972 budget was requested, is that correct?

Mr. DICKERSON. That is correct.

NEED FOR ADDITIONAL AUTHORIZATION

Mr. PASSMAN. Thank you very much.

Now, since you have deleted this request for capitalization, and since the new director is so prudent, efficient and so much on top of this

program, would it be necessary for you to request an additional authorization this year?

Mr. MILLS. We are requesting $25 million for reserves, Mr. Chairman.

Mr. PASSMAN. I say, since you have deleted the request for capitalization, will it be necessary for you to request any additional authorization this year?

Mr. MILLS. Not for the direct investment fund, it will not. Next year we may require some.

Mr. PASSMAN. I am not talking about next year. I may not be here next year. I am talking about this year, fiscal year 1972.

Mr. MILLS. But I must think of next year.

Mr. PASSMAN. You think of it and let me think about this year.

You don't anticipate needing any additional authorization for fiscal 1972?

Mr. MILLS. No, sir; but a good businessman must always plan ahead.

NUMBER OF COUNTRIES SCHEDULED FOR LOANS

Mr. PASSMAN. No, I don't even know that you will stay down there. They may nominate you for vice president.

You have been with this outfit 90 days. In how many countries do you estimate you will be making loans to fiscal year 1972?

Mr. MILLS. We operate in approximately 88 countries, but whether or not——

Mr. PASSMAN. I am thinking in terms of how many countries you are going to get started in with a loan program. I know you are operating with these insurance programs, but I definitely said loans.

Mr. MILLS. I would estimate 10 to 15.

Mr. PASSMAN. I believe in every one of those countries some spigot of the AID program is already operating is it not?

Mr. MILLS. I think that the AID may have programs in some of those countries, yes, Mr. Chairman.

Mr. PASSMAN. Tell me some that they don't have a program in.

Mr. MILLS. I don't know all the programs——

Mr. PASSMAN. Now, give us the names of the countries you are going to be operating in, or may make loans in in fiscal year 1972.

Mr. MILLS. If someone comes in tomorrow, Mr. Chairman, from a different country, I don't want to give you a list which would not be fully accurate.

Mr. PASSMAN. Do you know of any countries AID is not working in other than the pure Communist countries? Do you know as we sit here this afternoon and discuss this bill that they have a program going in 99 nations and 4 territories of the world?

Mr. MILLS. I would presume we could operate in most of the countries where AID is operating.

Mr. PASSMAN. You say "most." In all probability you will be operating in every one of those countries because you are supposed to be operating in the developing countries, are you not?

Mr. MILLS. That is correct, Mr. Chairman.

Mr. PASSMAN. And I think that is where AID claims they are supposed to be operating, in the underdeveloped countries.

Mr. MILLS. That is correct.

Mr. PASSMAN. So we would assume, based upon these facts, that AID will be operating in the same countries that you are operating in?

Mr. MILLS. Yes, with the possible exception of countries such as Iran and Taiwan where the AID program has phased out, but where OPIC would continue to support U.S. investment.

COMPETITION WITH OTHER AID PROGRAMS

Mr. PASSMAN. And you are going to disburse $30 million—that is, you are going to try to. I hope you don't succeed, but the overall AID program, if we just take all the spigots of it, is going to disburse $13.5 billion. Now, what kind of a mark are you going to make with $30 million when you are competing for projects where there is $13.5 billion involved?

Mr. MILLS. We are not competing for projects. That is important to understand, Mr. Chairman, because AID generally loans money on a government-to-government basis.

Mr. PASSMAN. You just told us you were getting out into India and I can assure you AID will be operating these small banks in India and Pakistan just like you are. These little banks are just cropping up all over the world. All during the hearings last year we found a new little bank here and a new little bank there. Certainly you are competing with them.

Mr. MILLS. We give our funds to the private sector.

Mr. PASSMAN. I like the way you said that "we give."

Mr. MILLS. We lend our funds to private individuals and corporations as distinct from AID which lends primarily to governments.

Mr. PASSMAN. When you say "AID" remember now that you are only covering one little spigot out of 27.

When you run down the list from the top to the bottom, you are dealing with many different operations.

I say "aid or assistance," not AID. They have all types of spigots and I can assure you any nation you go into—and I am perfectly willing to place a little wager—coffee if you want to—that somewhere in this vast aid and assistance program that they will disburse at least 50 times what you disburse. Do you want to call my hand?

Mr. MILLS. I don't know enough about the AID program.

Mr. PASSMAN. Learn something about it and you will know why I am frustrated, and I know how these things get started. Do you get into the local currency loan field?

LOAN REPAYMENT

Mr. MILLS. Yes. We administer the Cooley loan program for AID.

Mr. PASSMAN. But are you going to get repaid in local currencies?

Mr. MILLS. We administer this program for AID and local currency repayments are made to the U.S. Treasury.

Mr. PASSMAN. I know about the Cooley loans, but I am talking about your loans. Will they be repaid in dollars?

Out of the $30 million that you may disburse, what part of that will you use to purchase local currencies to disburse for loans?

Mr. MILLS. I am sorry, Mr. Chairman, I didn't understand the question.

Mr. PASSMAN. We are looking at a $30 million account. That is the direct investment loan fund. A $30 million account where you plan to make loans, we thought, to American investors and we find now that you can make it to foreigners. The committee is going to deal with dollars.

Mr. MILLS. That is correct, and that is what we will loan in.

Mr. PASSMAN. And will all of it be paid back in dollars?

Mr. MILLS. Yes; we have the right to loan local currency but to my knowledge nobody has requested it.

Mr. PASSMAN. The law is broad enough to let you receive payment back in local currency?

Mr. MILLS. Yes; we could, if we earned local currency.

Mr. PASSMAN. And I bet you will. What percentage?

Mr. MILLS. We have no request to my knowledge for that.

Mr. PASSMAN. I know you have no requests now. I haven't requested an application blank to run for reelection next year, but I plan to run. You have that privilege.

Mr. MILLS. We have that privilege.

Mr. PASSMAN. Is there any limitation on what percentage can be paid back in local currency?

Mr. MILLS. If we made a loan of a million dollars, I, as President, would insist that we got $1 million back. If we lend it we don't lose it through devaluation or other problems which I know can occur.

Mr. PASSMAN. Well, the exercise is quite interesting anyway. Let's see if we can't get it in the record. I don't think it is a hard question to answer.

Let's assume that you disburse your $30 million. So far I am convinced you should disburse it. Under the legislation as you interpret it, you will make all of the loans in cash?

Mr. MILLS. Yes.

Mr. PASSMAN. Now, let's make this record. The loans are going to be made in cash, but you may accept in repayment in local currencies.

Mr. MILLS. Only, Mr. Chairman, as I read the law here, on loans which have been made with such currency, including that which the Secretary of the Treasury may determine to be in excess of the normal requirements of the United States. So we must require dollar repayment of the Direct Investment Fund loans made in U.S. dollars. If we do make loans in foreign currency it will normally be from designated excess local currencies.

Mr. PASSMAN. You still have not gotten the question. I just can't get through. We give you $30 million.

Mr. MILLS. That is correct.

Mr. PASSMAN. You disburse the $30 million. All is disbursed in cash.

Mr. MILLS. That is right.

Mr. PASSMAN. But the day comes to pay the $30 million back. Are you privileged under the law to accept repayment of these loans, any of them, in local currency?

Mr. MILLS. No; they are repayable in dollars.

Mr. PASSMAN. The loans are made in dollars and they are repaid in dollars?

Mr. MILLS. It says so in the legislation.

Mr. PASSMAN. How do you get into local currency other than the Cooley funds?

Mr. MILLS. The primary way is for the Secretary of the Treasury to designate excess local currencies available which could be made available to us for direct lending.

Mr. PASSMAN. Now, let me go out to India. Could you, if you go through with making these loans to Indians, make them in rupees?

Mr. MILLS. The Treasury has excess rupees in India and has so designated that they do, and it was so requested.

Mr. PASSMAN. What do you mean it was so requested?

Why don't you make the decision? Why don't you tell those people that we have several billions of dollars in our rupees. This is a part of your operation, Mr. President. You ought to find out more about this bill. I say that respectfully.

We have so many Indian rupees we just don't know what to do with them. Why don't you have one of your assistants get a letter from the State Department or the Treasury Department stating to you the amount of surplus Indian rupees we have and then make this loan in rupees rather than dollars?

Mr. MILLS. If they request rupees, we certainly will.

Mr. PASSMAN. If who requests?

Mr. MILLS. If the particular corporation requests a loan in rupees. If they request dollars, these funds would then have to be used to purchase products primarily from the United States or from other developing countries. If they used local currency——

Mr. PASSMAN. How in the world are they going to purchase a loan from the United States?

Mr. MILLS. Purchase products.

Mr. PASSMAN. You are going to make a loan for the purpose of them relending to individuals?

Mr. MILLS. Yes, but in the Direct Investment Fund we are requiring that the dollar loan can only be used for developing country procurement or for U.S. dollar procurement. If there are requirements for local curency then we obviously would lend rupees. If the loan were in U.S. dollars, repayment would be in dollars.

Mr. PASSMAN. You indicated earlier you had a potential loan of $2 million for India?

Mr. MILLS. We have request for approximately $2 million, Mr. Chairman, yes.

Mr. PASSMAN. A $2 million loan.

Now, the purpose of the loan is to reloan this money to people in India?

Mr. MILLS. Private individuals or corporations.

Mr. PASSMAN. Individuals or corporations operating in the free enterprise sector in India. Well, it is a sure thing that they could get along just as well in all probability with rupees, because the country has a rigid restriction with respect to what you can import. Why couldn't we deal in rupees in an instance like that?

Mr. MILLS. We would lend in rupees to cover local costs, but if the project required an import from the United States, then we would lend dollars.

Mr. PASSMAN. A little man operating a little food store 16 miles out of New Delhi, what in the world would he need in that food store that he would have to import from the United States?

Mr. MILLS. He might want water pumps which did come from the United States.

Mr. PASSMAN. A grocery store selling water pumps? You said this was for small stores. Maybe he wants to manufacture moonshine, I don't know.

Mr. MILLS. It might need glass bottles then from the United States.

Mr. PASSMAN. You agree you can handle it however you want to?

Mr. MILLS. Well, we will handle it with the Treasury concurrence and according to prudent business practice, Mr. Chairman.

Mr. PASSMAN. Congress notwithstanding.

I know it is a matter of formality. You people do not take Congress seriously.

Mr. MILLS. We would loan the currency in accordance with the statute. I have the greatest respect, Mr. Chairman, for the wisdom of Congress and that is why I have the pleasure of appearing before you.

Mr. PASSMAN. Whatever wisdom we may have, you want to qualify, don't you?

Mr. MILLS. I think that would be inappropriate, Mr. Chairman.

LIBERALIZED ELIGIBILITY REQUIREMENTS

Mr. PASSMAN. You indicate in your fiscal year 1970 report that liberalized eligibility for loan guarantees is now being followed by you in selecting eligible borrowers. Would you explain these liberalized eligibility requirements as set forth before you even knew you would be in operation?

Mr. MILLS. Yes. I understand the law was changed, Mr. Chairman, to clarify that the local corporations, in the less developed countries, may be eligible to borrow guaranteed loans from U.S. financial institutions, and that is what is referred to in the annual report.

Mr. PASSMAN. If we had a small garage operating down in Monroe, La., and a man with a good credit rating, who is a specialist in his field and had several mechanics, decided he wanted to open an automobile repair shop in India, Pakistan, or Indonesia, would he be eligible for a loan?

Mr. MILLS. If he was in Indonesia, he would have to borrow from a U.S. bank in order to meet the criteria of the loan guaranty program; but theoretically we could make a direct loan if we thought this project was creditworthy and developmental to the country——

Mr. PASSMAN. If, in the country you needed a garage and mechanics and this man had the experience and wanted to open an automobile repair shop in one of these countries, would he be eligible for a loan?

Mr. MILLS. He would be eligible to go to Indonesia and open up and borrow; that is correct.

Mr. PASSMAN. That is what I said. Why make it complicated, Mr. President?

Now, let's say this man is a food processor at Oak Grove, La., and he is an expert in his field; he has a very favorable financial statement, has been in business for several years and the type of goods he processes

would be of value to the people over in Indonesia, or one of the African countries. Would he be eligible to open a plant in one of those countries?

Mr. MILLS. If it was developmental——

Mr. PASSMAN. I said eligible under your criteria?

Mr. MILLS. Yes.

Mr. PASSMAN. And if he had a little sawmill and it would contribute to the developing country, he would be eligible, wouldn't he?

Mr. MILLS. He would be eligible.

Mr. PASSMAN. You know that is very strange; they are not eligible for a SBA loan in my district. We have to give foreign aid preference. These people, I mentioned, have been turned down for loans here so I guess I will have to recommend they move their respective plants to some of these countries you are going to operate in. That is the only way I know to get them a loan. SBA won't let them have it.

The point is made. I know of 10 more that have been turned down that meet your criteria but do not meet SBA's criteria. SBA will let them go out of busines. You will keep them in business. If I can persuade them to move out to one of these countries you are going to operate in, they can stay in business.

Mr. MILLS. I hope if you do have constituents who do want to invest abroad in the LDC's that we can help them.

Mr. PASSMAN. I didn't say they wanted to go. That is the only way they can get a loan. SBA won't make them a loan. I have to say "I can't help you with SBA. You discuss it with your family and if you are willing to move to India or Pakistan, we will be glad to approve your loan and let you move your garage, or your little sawmill or potato processing plant."

DELINQUENT LOCAL CURRENCY LOANS

In the fiscal year 1970 report, you indicate the total local currency loans made, 29 are delinquent and of these six are likely to be defaulted; is that correct?

Mr. MILLS. On the Cooley loan program, the total Cooley loan program——

Mr. PASSMAN. I just wanted you to answer my question. I used numbers. You indicate of the total local currency loans made, 29 are delinquent and of these, six are likely to be defaulted. I want a yes or no answer.

Mr. MILLS. I think now there are 24 currently——

Mr. PASSMAN. How many are likely to be defaulted?

Mr. MILLS. The total amount of unpaid principal and delinquent——

Mr. PASSMAN. The number of loans I asked for?

Mr. MILLS. Twenty-four, Mr. Chairman.

Mr. PASSMAN. And the number likely to be defaulted?

Mr. MILLS. I don't know the number, but I can tell you that——

Mr. PASSMAN. The record shows six. Is that accurate or not? I am trying to make a record based upon what you people present to us to get this money.

Mr. MILLS. Six is apparently correct.

Mr. PASSMAN. Thank you. All I wanted to find out was if what you said is correct.

Mr. MILLS. I want to be accurate, Mr. Chairman.
Mr. PASSMAN. I just want to verify what you said.
Mr. DICKERSON. At that time it was correct, sir.
Mr. PASSMAN. What is it today?
Mr. DICKERSON. It is about the same, sir. Six.
Mr. PASSMAN. Look what a record we made to get an answer I should have gotten in the beginning.

NUMBER OF EMPLOYEES

How many people do you presently have on board?
Mr. MILLS. Currently we have 120, Mr. Chairman.
Mr. PASSMAN. How many in Washington?
Mr. MILLS. All our employees are in Washington. We are not authorized to have overseas offices.
Mr. PASSMAN. So they are on board in Washington?
Mr. MILLS. They are on board in Washington.
Mr. PASSMAN. You started business in January 1971?
Mr. MILLS. That is correct.
Mr. PASSMAN. Did you put them all on board then?
Mr. MILLS. We inherited most of the staff from AID, Mr. Chairman.
Mr. PASSMAN. If we cut you loose as you hope we will and I hope we don't, what will be the maximum number of employees you will have in OPIC when your operations are in full swing?
Mr. MILLS. Mr. Chairman, I am unable to say that. We currently have authorization for 140 people. We are planning to add approximately 15 to the staff.
Mr. PASSMAN. To do what?
Mr. MILLS. To assist in investigating some of these projects which you and I have discussed here earlier and to assist in accounting, which I think we should keep very close track of, and simply to keep a tighter control over this whole operation.

NEED FOR FINANCIAL REPORT

Mr. PASSMAN. I think Mr. Roybal made a very excellent suggestion and I hope I didn't misread him. Since you are just getting off the ground and brand new, you are going to give us a Dun & Bradstreet report or else a commercial bank report on each one of these companies requesting funds for loans showing where they are domiciled in the United States, where their branches are abroad, their capital structure and their offices, and how long they have been in business.
Mr. MILLS. That is right.
Mr. PASSMAN. Then we will see where we go from there.
Now, of the $30 million that you estimate that you hope to get rid of, how much of it do you have supported with some kind of preliminary presentation with you?
Mr. MILLS. I have none of the potential project proposals with me.
Mr. PASSMAN. They are all so new that at this particular time they are in a state of flux?
Mr. MILLS. Most of the proposals for lending which we have discussed today are preliminary inquiries from investors, and we did not bring the information with us.

Mr. PASSMAN. As it stands as of now, we are just dealing with the invisible. We just hope these people are all right and will justify what they are asking for.

Mr. MILLS. If they are not all right, Mr. Chairman, we will reject them.

Mr. PASSMAN. I didn't say you wouldn't, but I did say they are in a state of flux. It has to be established whether any of these people qualify; is that right?

Mr. MILLS. Because we have not approved them, that is correct.

Mr. PASSMAN. Well, I know that. Is there any difference between what I said and what you said other than you just wanted to use different words than I did?

Mr. MILLS. No, but I do want to reassure you some of these may be rejected and others may come in.

Mr. PASSMAN. They may all be rejected at this time because you don't know and you haven't had a chance to check their credit?

Mr. MILLS. That is correct.

Mr. PASSMAN. When you have gotten the loan applications, you are going to pull a credit report of Dun & Bradstreet and you are going to let this committee in on it, aren't you?

Mr. MILLS. I would hope we would do a lot more investigating than just a credit report, but we will provide the committee with the relevant information on the projects I have mentioned.

Mr. PASSMAN. I am just asking you. You see you made a speech, a short one, but you didn't answer the question.

You are going to submit to this committee a Dun & Bradstreet, or commercial bank report, and their financial statement showing the capital structure.

Mr. MILLS. And the officers.

Mr. PASSMAN. And you are going to do this during the fiscal year on all the loans you process?

Mr. MILLS. Certainly.

Mr. PASSMAN. Thank you. Now we are going to hold you to that.

NUMBER OF PEOPLE WITH SPANISH SURNAMES

Mr. ROYBAL. Mr. Chairman, on the matter of employment, you stated there are 120 people employed and all based here in Washington, D.C.?

Mr. MILLS. That is correct.

Mr. ROYBAL. Of the 120 people, how many are there with Spanish surnames?

Mr. MILLS. May I submit that?

Mr. ROYBAL. Will you submit that for the record?

Mr. MILLS. I will be pleased to.

Mr. ROYBAL. They are all American citizens, are they?

Mr. MILLS. They are American citizens, yes. You have to be an American citizen to work for the agency because we have classified material.

Mr. ROYBAL. I am asking all departments that come before this committee and also in the other subcommittee of which I am a member how many Spanish surname employees they have. I am asking that for the record this year and then I am going to ask them again next

year to see if there is any improvement and if there is no improvement in the equal employment opportunity field, I am going to be opposing some of these appropriations.

Mr. MILLS. We have a number of consultants who are Spanish speaking. Shall we include those?

Mr. ROYBAL. No.

Mr. PASSMAN. I think we should have a breakdown in the record, even though applications no longer indicate race, creed and color, because I think it is important. There is a good story in the record as to how the Cuban refugees have fitted themselves into a productive life in my State. They are making great citizens, working hard and are the envy of other people who would prefer not to work for a living. They are really carving out a proper place for themselves in our social life there and are contributing to our economy. I don't know why you wouldn't have jobs in your organization that people like that couldn't fill.

Mr. MILLS. I hired a Cuban consultant——

Mr. PASSMAN. Not just Cubans, but most of the Latin people are anxious to work, you understand.

Mr. MILLS. We had a number working with us in the Latin American section.

Mr. ROYBAL. Give us the number of Spanish surname employees in your organization.

Mr. PASSMAN. And the number of consultants. Would you supply that for the record also?

Mr. MILLS. We will be pleased to.

(The information follows:)

OPIC EMPLOYEES AND CONSULTANTS WITH SPANISH SURNAMES

	Number as of Mar. 30, 1971	Percent of total
Employees, total	116	100
Spanish surname	2	1
Other minorities	29	25
Total minorities	31	26
	Number	Percent of total
Consultants, total	7	100
Spanish Surname	1	14

TERMS OF LOANS

Mr. PASSMAN. What are the maximum terms of these loans?

Mr. MILLS. I would expect the maximum term to be 20 years, and most would be shorter.

Mr. PASSMAN. What is the rate of interest?

Mr. MILLS. That will depend upon the country and the project.

Mr. PASSMAN. I know, but you are making American firms American loans with American dollars. Are you going to charge them the prevailing interest rates at the time the loan is made?

Mr. MILLS. At the last board meeting we approved a policy of having a flexible rate so that if we believe a particular project, for instance, is very developmental, we might lower——

Mr. PASSMAN. Define "developmental." It really reads good. What do you mean?

Mr. MILLS. It is what Congress asked us to do, Mr. Chairman. In addition to looking at the financial stability and credit worthiness of a company on a project which we must make sure of——

Mr. PASSMAN. I am sorry I asked that question, but proceed.

Mr. MILLS. Each project must contribute to the development of a less developed country. As I explained earlier, we particularly look at the number of jobs created, the amount of taxes paid, the effect on the ecology of the country, or all the other criteria we use.

Mr. PASSMAN. Even though the man has gone into bankruptcy seven times, if you thought he could make some developmental contribution, he would be eligible?

Mr. MILLS. No, Mr. Chairman. We have two basic criteria.

First is financial soundness.

Mr. PASSMAN. You have read into the record a waiver there.

Mr. MILLS. It is not a waiver. We have to have both. Financial soundness and development impact. One without the other will not do. If we think it is a good financial project and has good development impact, we might give more favorable terms. If we thought the project was particularly helpful to the country and was at the same time a sound risk——

Mr. PASSMAN. Let's get to the point. We are talking about concessionary interest rates; aren't we?

Mr. MILLS. No.

Mr. PASSMAN. What will be the interest rates? We are entitled to that. Will it be what Uncle Sam has to pay to get the money for you?

Mr. MILLS. We hope to lend it out at higher rates than that.

Mr. PASSMAN. I hope I will go back to age 35, but I am not very optimistic about that happening. You are not going to overcharge the fellow. If you make a loan, you are going to charge him an interest rate. What are your interest rates?

Mr. MILLS. Mr. Chairman, I mean this seriously. It depends upon the project. The man comes in and he is going to build a plant in Honduras or Indonesia. We would look at the current rate today. Maybe it is 7 percent, 8 percent, 9 percent.

Mr. PASSMAN. What is the minimum?

Mr. MILLS. The minimum certainly is what the prime rate would be at which you could borrow long-term funds in this country, which would be approximately 7 percent.

Mr. PASSMAN. Why couldn't the Board say the interest rate will be the average interest rate paid by the Government?

Mr. MILLS. I would say it would be higher than that, Mr. Chairman, because the Government would have the lowest rate so we would not lend at lower than the Government rate.

Mr. PASSMAN. It might not necessarily have the lowest rate. Then again they might. The Government was paying up to 8¼ I believe a year ago.

Mr. MILLS. That was lower than anybody else, Mr. Chairman.

Mr. PASSMAN. That is not so. At some of the banks the prime rate was 7½. It never got above 7½, I don't believe.

Mr. MILLS. We would certainly lend at higher than Government rates.

Mr. PASSMAN. I don't think the prime rate ever went over 8 percent.

Mr. ROYBAL. Mr. Chairman, can we establish for the record a figure? Shouldn't we know what has been the lowest rate charged?

Mr. MILLS. We haven't made any loans.

Mr. ROYBAL. And what is the highest rate?

Mr. MILLS. We haven't made any loans, so there is no figure unfortunately to put in the record. But as a matter of principle obviously the lowest rate would be the Government rate, but that would be too low, I think, for what we would require.

Mr. ROYBAL. That still doesn't answer our question.

Mr. PASSMAN. Have you discussed with any of these people what the interest rates will be?

Mr. MILLS. We have discussed it.

Mr. PASSMAN. What are the rates you have discussed?

Mr. MILLS. The current rate—with the ADELA last year——

Mr. ROYBAL. What is the current market rate?

Mr. MILLS. On a triple-A bond it is 7.5 or 7¾ percent.

Mr. ROYBAL. You would charge 7¾ percent?

Mr. MILLS. We might charge more.

Mr. ROYBAL. At least 7¾?

Mr. MILLS. I would say at least that. That is for a straight bond. Now, we might say "Look, we will charge you 7 percent, but we want a portion of your profits, so that we can make sure that the good projects in which we participate will cover any losses we may have."

For instance, in the case of a Direct Investment Fund loan we are allowed to take convertible debentures and we would like to take such debentures rather than a straight bond. The debenture might be 6.5 percent, but it would be convertible and maybe much more valuable.

Mr. PASSMAN. Do you know of any way to make it more complicated for the layman reading the record? Could you just let this committee know what interest rates you have discussed with these proposed borrowers? You come in and say "We plan to disburse $30 million." You have to discuss interest rates before you can consummate a loan, that I do know. Would you let us know so we can get a general idea?

Mr. MILLS. It would be the current commercial rates.

Mr. PASSMAN. You have more commercial rates than you have brands of liquor. It depends on what you are talking about. You have your Government rate; you have your bond rate on municipal bonds; you have another rate on Government long-term bonds, and you have another rate on short-term paper.

INTERNATIONAL FINANCIAL SITUATION

I want to know what it is. I can't guess at it. At the proper time let us know so we will know upon what basis this unneeded agency is starting in business. If we find the short-term demands on U.S. dollars gets to the point where it looks like the banks abroad are getting shaky and are going to demand gold because we are continuing to send out more dollars than we bring home, don't you think that would justify your taking a harder look at every application to take capital abroad?

Mr. MILLS. Mr. Chairman, with the American investors that we are financing, the long-term record is that these investments made abroad bring home a great deal more than they——

Mr. PASSMAN. I can visualize that as well as you can, but let's look at the cold-blooded facts. I have been examining witnesses on this side of the table for 17 years. I can go back to Eugene Black's days and all the others when they said, "Well, you are worried about nothing."

But it follows nevertheless that on December 31, 1950, short-term dollar claims against the United States were only $8,645 million and at that time we had $23 billion worth of gold. Today we look at the short-term dollar claims—I mean short term, due today. They are $42 billion, but our gold reserves have dropped to $10 billion-plus. Then we try to analyze what brought that about and we see it here. From 1950 through 1969 we have sent out $44,104 million more than we have brought home. Now, with 1970 added we think it will be close to $50 billion more that has gone abroad than has been brought home and these people who are holding dollars are getting shaky. They want something for them. I would think, when you look at the record, that it would be pretty good to keep these people in America, you understand, until we can bring this situation under control.

I read this in a paper the other day and almost shuddered when I read it:

> Foreign banks will be pressing dollars for gold. Not in any rush, through March of 1971. These are dollars they don't want because their vaults are already crammed to overflowing. They would like to turn in much but don't dare lest they bring down the whole international exchange system.

They are getting very nervous. You know some of these serious meetings bankers have with foreign bankers and it is coming to the point where we are being reprimanded because we are not making any attempt to put our fiscal house in order.

I would just hope that you would have a good close look at transferring these American business people abroad. Let them stay here to use their techniques, create competition and get the prices down so we will be competitive in the world markets.

INCREASE IN TRAVEL EXPENSE

You indicate a sharp increase in travel which is due to the fact that you need to protect the Corporation business interests. Wouldn't it be possible to use some of our other people stationed in these countries to help monitor these projects?

Mr. MILLS. We do use AID employees where appropriate, Mr. Chairman.

Mr. PASSMAN. Where would they be inappropriate?

Mr. MILLS. They might not be people experienced in private business or in the particular project.

Mr. PASSMAN. We go into a country like India where we have given them over $7 billion and we have many people stationed there.

Mr. MILLS. India is a good example of where we do use AID people.

Mr. PASSMAN. All your personnel are located in Washington.

You are a nice fellow and I don't like to quarrel with you, but you said, if I remember correctly, that these loans are so good they didn't need monitoring, didn't need checking, in effect.

Mr. MILLS. No, Mr. Chairman.

Mr. PASSMAN. I asked who would service these loans. You said you were going to be so prudent in approving them——

Mr. MILLS. In the case of Ethiopia we sent our case officer to personally examine the project in Ethiopia. We found out what there was to know about it and the man made a report. We made an on-site appraisal of what the ability of the management is and the reputation of the management and what their know-how is of the business and the particular project in the country.

Mr. PASSMAN. Concerning this new Agency that you head up and started into business in January 1971, what do you estimate the travel will be in fiscal year 1972, Mr. Director?

Mr. MILLS. The travel in 1972, domestic and international, will be approximately $178,000.

Mr. PASSMAN. How many will be traveling?

Mr. MILLS. We have approximately 60 officers, so I expect 20 or 30 of the principal officers would be traveling during the period of the year, Mr. Chairman.

TYPE OF OPERATION

Mr. PASSMAN. Gentleman, in all probability you could make a fair case for your new operation if you would limit your function to guaranteeing investments abroad, charge a fee, and make a profit. But why in the world do you people want to expand OPIC to where you would be competing with the Asian Development Bank, the Inter-American Development Bank, the World Bank, the Development Loan Fund, and for that matter, various other fund providing loans? If you had gone into the business with an operation just to cover insurance on investments abroad, I could go along with you, but you people just had to get into the give-away part of it and I wish you would give some thought to operating this program as it started years ago.

Why don't you take a look at this?

Mr. MILLS. I want to emphasize we don't compete with those——

Mr. PASSMAN. You say you don't. I say you do.

If you could name me one project by name in America that you have ever started that you don't have one or more abroad I will buy you a good steak.

When you consider all foreign aid spigots, you can't find a project of any kind, shape or form that they haven't started. You have 4,416 scattered in 99 nations of the world. I am dead serious. You are a good businessman. I know that, and I won't sleep well tonight having had to quarrel with a man of your intellectual capacity, but why don't you take a close look at this operation and back away from it and get out of the money-lending business and get into the guaranty business? You could build up an agency here and build up a reputation as a prudent businessman that would be on a par with your accomplishments in civilian life. Look at it, please.

Mr. MILLS. I hope the Congress will be proud of the record we do make on these loans.

Mr. PASSMAN. Not in making loans because you have $13,517 million scattered across the board for foreign aid and why you people want to open up a little lending agency I don't know.

Mr. MILLS. That figure is not for private lending, and not on commercial terms——

Mr. PASSMAN. This amount covers the waterfront. I have been living with this program and I don't know of any type of project that has ever been conceived by the mind of man that you don't have one or more of them going in these foreign nations.

Mr. MILLS. But how many are for a profit and to private corporations?

Mrs. PASSMAN. Every one of them is for a profit. The most profitable thing in the world are these so-called foundations and the people who operate without a profit.

They all make a profit. Why do you think they are in business?

You won't quarrel with the profit of the Export-Import Bank. How about the International Development Association? The Asian Development Bank? Take this sheet and look at it. Now, you have to dabble in it with $30 million. Stay in the guaranty sector. I will back you up.

Mr. MILLS. We hope you will approve the $25 million reserve request.

Mr. PASSMAN. I hope we don't.

Mr. MILLS. Because reserves are what are backing the insurance and guaranty programs.

Mr. PASSMAN. Why don't you have a look at getting out of this loan business and moving forward on the investment guaranty sector? I can work with you. I have had a little business experience. You may need more money than you are asking for. Stay in the insurance business guaranteeing these loans. Make the profit and go show the President. "All right, I am making you a profit." But you people want to get your finger in the loan business.

Mr. MILLS. Mr. Chairman, we did cut out $20 million.

Mr. PASSMAN. If you cut out the other $30 million, then I will say you are the greatest witness ever to appear before this committee.

Mr. MILLS. Mr. Chairman, that is the capital of the Corporation and we must have capital.

Mr. PASSMAN. Get out of the loan business in OPIC.

You have as much business getting in the loan business as I have trying to practice surgery and I wouldn't know how to pick a splinter out of my foot.

Get out of this. Make a record for yourself and make our Government some money.

Mr. MILLS. That is one goal I hope to accomplish, Mr. Chairman.

Mr. PASSMAN. Mr. Shriver?

ASSISTING SMALLER COMPANIES

Mr. SHRIVER. Thank you, Mr. Chairman. Mr. Mills, in a news release dated March 11, 1971, it is stated that you are developing procedures to assist smaller and medium-sized companies. Would you explain these procedures further?

Mr. MILLS. We devote considerable additional staff time to counseling and processing the applications of smaller investors who are much less able than their larger competitors to put together an investment

project proposal. Although the Corporation's costs, and often the risks, connected with insuring or financing smaller investments are greater, we are trying to broaden the use of our incentive programs by more small and medium-sized U.S. investors.

The small and medium-sized investor is encouraged to use all OPIC programs—insurance, financing, and pre-investment assistance—in his investment planning. Our Direct Investment Fund itself is a small business facility in part. An upper limit of $2 million (5 percent of OPIC's capital) has been set on loans to any project; we expect to make loans as small as $50,000. Most small and medium-sized projects needing loan financing will fall within such a range. Also, OPIC's investment survey program—under which we share 50 percent of the costs of investment surveys—is especially applicable to the smaller investor. At the present time, OPIC is reviewing several smaller projects for possible financing assistance.

POLITICAL RISK INSURANCE IN CHILE

Mr. SHRIVER. The same news release mentions the situation in Chile, and it states that developments in a few other countries are being watched carefully. What is the status of your political risk insurance contracts in Chile? What other countries are you referring to?

Mr. MILLS. In Chile, we have outstanding insurance contracts covering 32 projects, not counting two Anaconda projects, coverage of which is in contention. Against expropriation, we have $310 million under current coverage plus $321 million on standby; against inconvertibility, the figures are $171 million plus $507 million; against war, $119 million and $256 million. The figures for the amounts of standby coverage include the contracts in contention with Anaconda. OPIC has not had to pay any claims yet on coverage in Chile, but nationalization steps already underway have led to the filing of preliminary notices or claims by eight investors. Whether these claims mature, and the cost to the OPIC program if they do mature, depends largely on Chile's performance—its prompt payment of adequate and effective compensation for property expropriated and its honoring of the debt of such projects. We are keeping in close touch with insured investors affected by Chilean actions in order to be in a position to act promptly and effectively in response to claims, or to opportunities to lend support to fair and constructive settlements which investors may be able to work out with the Chilean Government.

Other countries in which we are watching potential claims situations closely include Bolivia and East Pakistan. If I may go off the record?

(Discussion off the record.)

PREINVESTMENT ASSISTANCE

Mr. SHRIVER. What kind of new techniques and approaches do you have in mind for the preinvestment assistance program?

Mr. MILLS. In addition to continuing a preinvestment survey program under which OPIC agrees to reimburse a U.S. company for 50 percent of the costs of an unsuccessful study, OPIC has funded a program through the nonprofit Agribusiness Council designed to encourage agribusiness companies to engage in surveys of investment oppor-

tunities in the field of food processing and marketing. This is in recognition of the need for developing countries to utilize their agricultural resources on a profitable basis. In addition, we have very recently instituted a special project program designed to encourage companies to survey investment opportunities in selected industries by paying more than 50 percent of the cost of a survey. Our selection of special projects is based upon specific needs of countries or regions and is designed to be flexible and take advantage of particular opportunities. For example we have recently selected investment in export industries in Africa to take advantage of the recent elimination of tariffs on manufactured goods of developing countries within the European Economic Community.

Finally, following our congressional mandate to promote actively U.S. private participation in development projects, we are calling on a range of American companies personally to acquaint them better with our programs and broaden their use of them.

TYPES OF PROJECTS CONSIDERED

Mr. SHRIVER. Would you explain briefly some typical projects being considered for investment guaranties and direct investment?

Mr. MILLS. Let me mention first the proposed projects about which we have been approached for assistance through a loan from our Direct Investment Fund. There is a U.S. company planning to build and operate the first Fiberglas plant in Brazil. The plant would help open up a key new industry by producing filament glass products for tires, furniture and building structures.

As I mentioned earlier, another project proposal is the U.S. company planning to build and operate a container plant in Nicaragua, which would stimulate exports and earn foreign exchange. Then there is the U.S. company planning to build and operate an olive processing plant in Morocco. This would involve a new use of American capital to stimulate North African exports to the European Common Market through the EEC tariff preferences. Finally, there is the very small U.S. company planning to build and operate a desiccated coconut plant in Indonesia.

In the loan guaranty area, some typical examples of projects which have requested our assistance through our guaranty of a private loan would include the construction of a cement plant in Sao Paulo, by a U.S. company in joint venture with local citizens to help make Brazil more nearly self-sufficient in this basic construction material. Another would be a company undertaking a nickel mining and refining project in the Philippines, which would earn considerable foreign exchange at a time when the country faces an exchange squeeze. We would be participating in the financing of this venture with the International Finance Corporation (IFC).

SALARY LEVELS

Mr. SHRIVER. Would you provide a breakdown of salary levels for your staff for fiscal year 1972?

Mr. MILLS. I would be pleased to.
(The information follows:)

Overseas Private Investment Corporation

Grades and ranges	*1972 estimate*
Positions established by the Foreign Assistance Act of 1961, as amended, approved Dec. 30, 1969 (83 Stat. 805):	
Executive level III, $40,000	1
Executive level IV, $38,000	1
Executive level V, $36,000	3
Grades established by OPIC under authority of Foreign Assistance Act of 1961, as amended, approved Dec. 30, 1969 (83 Stat. 805):	
AD–18, $36,000	4
AD–16, $26,547 to $33,627	4
AD–15, $22,285 to $29,752	8
AD–14, $19,643 to $25,538	2
AD–13, $16,760 to $21,791	2
GS–15, $22,885 to $29,752	22
GS–14, $19,643 to $25,538	11
GS–13, $16,760 to $21,791	11
GS–12, $14,192 to $18,449	7
GS–11, 11,905 to $15,478	3
GS–10, $10,869 to $14,127	1
GS–9, $9,881 to $12,842	10
GS–8, $8,956 to $11,647	7
GS–7, $8,098 to $10,528	14
GS–6, $7,294 to $9,481	5
GS–5, $6,548 to $8,510	17
GS–4, $5,853 to $7,608	6
GS–3, $5,212 to $6,778	1
Total permanent positions	140

Mr. PASSMAN. Thank you, Mr. Shriver. Mr. Hathaway?

SELF-SUSTAINING OPERATION

Mr. HATHAWAY. Thank you, Mr. Chairman. On page 5 you mention that in the early years earnings will not be sufficient to meet the needed growth in the Corporation's reserves. When do you estimate that earnings will be sufficient to meet the reserve commitment?

Mr. MILLS. The net earnings of the Corporation are applied to the insurance reserve and the guaranty reserve to back up the two programs. Concerning the insurance reserve, the very nature of the risks we insure makes it difficult to predict the level of reserves actually needed. These risks arise from political events in the developing country which cannot be predicted. We have not been able to develop an actuarial basis for loss calculation. This may be an important reason why such insurance is not available from commercial private insurance companies.

In recent years we have been proceeding on the basis of building up a cash reserve to handle promptly more routine and medium-sized claims. Catastrophic loss involving one or more countries is viewed both by OPIC and the Congress as a situation which may require an appropriation to back the full faith and credit commitment of the U.S. Government.

The legislation also requires that the guaranty reserve be maintained at 25 percent of outstanding guaranties. If the Congress fails to appropriate modest increments each year to OPIC's reserves, the Corpora-

tion would have to allocate a significant proportion of its earnings to the guaranty reserve to permit program growth. The effect of this approach would be that the insurance reserve will continue to grow smaller relative to the size of the outstanding portfolio. This would imply appropriation requests to the Congress to supplement the insurance reserve. In my view, our insurance reserve should keep pace with the portfolio growth.

When the guaranty program has an outstanding portfolio of about $500 million in projects on stream, the earnings capability of the guaranty portfolio should make it financially self-sustaining. At that point, which I would hope to be in about 4 or 5 years, a greater proportion of corporate earnings might be available to fund the insurance reserve and consequently substantially reduce appropriation requests in succeeding years.

PRE-INVESTMENT ASSISTANCE

Mr. HATHAWAY. On page 4, please explain on line 3 "preinvestment assistance."

Mr. MILLS. Our preinvestment assistance consists of giving prospective investors information on the investment situation in developing countries, investment counseling, and sharing with qualified, interested investors part of the costs of investigating potential investment opportunities.

CONTINGENT LIABILITY LIMITS

Mr. HATHAWAY. On page 4, what are the fixed contingent liability limits referred to?

Mr. MILLS. These are determined in each specific investment insurance contract, on a case-by-case basis. Usually, the limit is the amount of the greatest coverage the investor is issued for any one of the three political risks—currency inconvertibility, expropriation, or war, revolution and insurrection. This means that if we covered an investment up to $1 million against inconvertibility, $2 million against expropriation, and $3 million against war, in no event would we pay claims of more than $3 million even though the investor might by some chance sustain greater losses, if, as is remotely possible, all three events happened.

Mr. HATHAWAY. On page 6, please supply detailed country-by-country claim situations.

CLAIM SITUATIONS

Mr. MILLS. I will be glad to share this information with the committee. But much of it is either classified or involves privileged business information. For that reason, we request that the data not be made public.

(The information follows:)

CURRENT INSURANCE CLAIMS SITUATION

The actual and potential claims of which OPIC has knowledge have been classified into two categories:

List A (2 pages)

These are actual claims being processed. The totals for this group are:

Expropriation	$2,634,204
Inconvertibility	678,408
Total (12 cases)	3,312,612

List B (1 page)

Action which might present a claims situation has been taken by the host governments on these cases, but no formal claims have been made on OPIC by the investors. The total for this group is:

Expropriation (three cases), $1,070,500.

In addition there are other cases where no positive action has been taken by the host governments against the particular company. In certain cases, as required by the insurance contracts, the investors had informed OPIC of the existence of a threat of expropriation. Most of these cases involve a constitutional amendment pending before the Congress in Chile, and include potential claims situations in Bolivia. These cases may not result in actual claims, but are being monitored closely. The total exposure of this category of potential claims amounts to:

Expropriation, $292,480,500.

(Note: Subsequent to the hearing, two investments in this category, insured for a total of $16.7 million, have been notified of expropriatory action by the Government of Bolivia, and may result in claims if not adequately compensated by the Government of Bolivia.)

(Classified detailed list submitted to the committee.)

Mr. HATHAWAY. On page 6, can the capital fund be used for reserves?

Mr. MILLS. No, but the Direct Investment Fund will be charged with losses, and credited with gains, from direct loans.

NEW TECHNIQUES

Mr. HATHAWAY. Page 8, what new techniques and approaches for preinvestment assistance are contemplated?

Mr. MILLS. In addition to continuing a preinvestment survey program under which OPIC agrees to reimburse a U.S. company for 50 percent of the costs of an unsuccessful study. OPIC has funded a program through the nonprofit Agribusiness Council designed to encourage agribusiness companies to engage in surveys of investment opportunities in the field of food precessing and marketing. This is in recognition of the need for developing countries to utilize their agricultural resources on a profitable basis. In addition, we have very recently instituted a special projects program designed to encourage companies to survey investment opportunities in selected industries by paying more than 50 percent of the cost of a survey. Our selection of special projects is based upon specific needs of countries or regions and is designed to be flexible and take advantage of particular opportunities. For example we have recently selected investment in export industries in Africa to take advantage of the recent elimination of tariffs on manufactured goods of developing countries within the European Economic Community.

Finally, following our congressional mandate to promote actively U.S. private participation in development projects, we are calling on a range of American companies personally to acquaint them better with our programs and broaden their use of them.

SOURCE OF EARNINGS

Mr. HATHAWAY. I presume the total earnings are from premiums only. Additional earnings will be from interest on loans when such loans are made?

Mr. MILLS. Yes. The bulk of OPIC's earnings in fiscal year 1971 comes from the fees investors pay for political risk insurance. In addition to this, the Corporation earns income from guaranty fees interest received on loans, and interest earned on U.S. Treasury notes, purchased by OPIC with previous earnings.

INSURANCE FEE

Mr. HATHAWAY. Couldn't the insurance fee be increased in lieu of an appropriation, or as a partial offset to the appropriation?

Mr. MILLS. Our board has just approved new fee rates on all insurance contracts. The new rates total 1½ percent per annum on all three coverages, as compared to 1⅛ percent charged previously. This is the highest of any of the 12 developed countries which have similar insurance programs. This of course, will increase our income. We do not believe we can increase fees to a level that would substitute for the $25 million appropriation request. Insurance would no longer be the incentive that the Congress intended because it would become too expensive. We have considered higher fees, and concluded that a larger increase in fees at this time woud be the wrong thing to do.

Mr. HATHAWAY. What percentage of the investment does the insurance cover?

Mr. MILLS. Up to 100 percent of the equity investment and up to 100 percent of possible retained earnings. Now, however, OPIC has introduced coinsurance by the investor. We are not now offering coverage of more than the original equity investment in large and/or sensitive projects—which means primarily investments in the extractive or public utilities industries.

Mr. PASSMAN. Thank you, Mr. Hathaway. Mrs. Reid?

TERMS OF LOANS

Mrs. REID. Thank you, Mr. Chairman. Under what terms are loans made to private investment projects?

Mr. MILLS. The terms of our loans are commercially competitive in the U.S. private money market, not concessionary. Conditions may vary, depending on the need for the project in the host country and its contribution to development. Interest rates are at or near commercial terms, sometimes variable or with convertible features to enable the Corporation to share in the earnings of the more profitable ventures. Each project should have a sound debt/equity balance and the earnings potential to properly service all debt. Loan terms may range from 5 to 20 years. Maturities or principal repayment of these loans are based on the financial projections of the project, so as to provide an adequate grace period to cover the construction and start up phase of the project, and a reasonable repayment schedule based on cash

flows. The loans may be secured or unsecured depending on the circumstances.

ACCOUNTABILITY TO CONGRESS

Mrs. REID. What accountability do you have to the Congress on your various programs?

Mr. MILLS. More than we had under AID. As president of the Corporation, I am responsible for its operations and I am accountable to the Congress, to the Secretary of State for policy guidance, and to the board of directors. Each of us, including my executive vice president, are appointees of the President of the United States.

Perhaps still more to the point, we must report annually to our authorizing committees—House Foreign Affairs and Senate Foreign Relations. We are subject to the Government Corporation Control Act. Each year, we appear before the House and Senate Appropriations Committees.

We are subject to audit by the General Accounting Office. Also, by March 1, 1974, we are required to submit to the Congress an analysis of the possibilities of transferring all or part of our activities to the private sector.

LOSS RECORD

Mrs. REID. What has been your record in regard to losses so far?

Mr. MILLS. Since the beginning of the insurance program in 1948, we have paid out a net $3.8 million in claims (after recoveries). Our guaranty claims paid total $12.4 million, of which we anticipate eventual recovery of approximately $3 million. We currently are processing pending claims totaling approximately $3 million.

TYPES OF INSURANCE APPLICATIONS RECEIVED

Mrs. REID. Would you describe some of the types of investment insurance applications that you have on hand at this time?

Pick out several typical ones and put them in the record.

Mr. MILLS. Gladly.

(The information follows:)

SAMPLING OF CURRENT APPLICATIONS FOR POLITICAL RISK INSURANCE

India

An application for a project consisting of the construction of a farm tractor manufacturing and assembly facility. The project will transfer expertise in manufacturing processes and technology and will ultimately aid in the production of food in India. The total amount of investment is $3.3 million.

Iran

Coverage of the construction and operation of a licorice extraction plant. The amount of investment is $450,000.

Botswana

An application for coverage of a project of mineral development (principally copper) which will aid in the economic development of Botswana. The arrangement is a unique one involving a public offering of shares in the project of some $51.6 million.

Tunisia

An application for the assembly and sale of sewing machines in the host country. The amount of investment is approximately $47,500.

Nicaragua

An existing business manufacturing vitreous china sanitary ware has applied for coverage of a major expansion and modernization which will, in addition to other developmental factors, create a number of new jobs. The amount of investment is $435,000.

Thailand

An application for an integrated broiler and commercial pullet company with three basic elements; a hatchery, a dressing plant, and an egg station introducing new techniques to the developing poultry industry. The estimated amount of investment is $150,000.

LOAN CRITERIA

Mrs. REID. Does OPIC make dollar loans to U.S. private enterprise only in the developing countries—What about Europe?

Mr. MILLS. By law, all OPIC assistance is limited to projects in "friendly less-developed countries and areas."

Mrs. REID. Must there still be at least 50 percent U.S. ownership before a loan can be considered?

Mr. MILLS. Neither OPIC, nor, to my knowledge, its predecessor agencies had such a requirement with respect to direct dollar loans. However, in regard to private loans which OPIC guarantees under the statute, the guaranteed lender must be an eligible U.S. investor which means majority U.S. ownership. The borrower may be a wholly locally owned enterprise. In the case of a loan from the Corporation's direct investment fund, our present policy requires that the project have substantial U.S. participation for such a loan to be considered.

CONTROL OF PRIVATE INVESTMENT ABROAD

Mrs. REID. Is there still a mandatory control on U.S. private investment abroad? If so, are the mandatory monetary controls waived for OPIC dollar loans?

Mr. MILLS. The mandatory controls on U.S. foreign direct investment administered by the Office of Foreign Direct Investments (OFDI), Department of Commerce and the guidelines established by the Federal Reserve Board on loan credits continue in effect. These two programs, as you may know, allow for more liberal treatment for investment in the developing countries.

However, in answer to your second question, these controls apply only to private financial transactions. Since OPIC is lending as a Government Agency, its transactions do not fall within the purview of these controls; although investments by U.S. investors in projects which OPIC assist must meet these requirements.

Senior subcabinet representatives of both the Treasury and Commerce Departments serve on the OPIC board, which reviews all of the Corporation's loans and guaranties.

Mrs. REID. Are most of the loans tied to new ventures or existing businesses?

Mr. MILLS. To new ventures. To be eligible for any OPIC assistance, the project seeking assistance must represent new investment—either a new facility, an expansion or diversification.

SIZE OF BUSINESSES CONSIDERED

Mrs. REID. Is OPIC interested in small- and medium-sized business concerns as wall as the so-called big business firms?

Mr. MILLS. We devote considerable additional staff time to counseling and processing the applications of smaller investors who are much less able than their larger competitors to put together an investment project proposal. Although the Corporation's costs, and often the risks, connected with insuring or financing smaller investments are greater, we are trying to broaden the use of our incentive programs by more small- and medium-sized U.S. investors.

The small- and medium-sized investor is encouraged to use all OPIC programs—insurance, financing, and preinvestment assistance—in his investment planning. Our direct investment fund itself is a small business facility in part. An upper limit of $2 million—5 percent of OPIC's capital—has been set up on loans to any project; we expect to make loans as small as $50,000. Most small- and medium-sized projects needing loan financing will fall within such a range. Also, OPIC's investment survey program—under which we share 50 percent of the costs of investment surveys—is especially applicable to the smaller investor. At the present time, OPIC is reviewing several smaller projects for possible financing assistance.

TECHNICAL AND PROFESSIONAL SERVICES OPERATION

Mrs. REID. To what extent are U.S. exporters of technical and professional services eligible for assistance under your program?

Mr. MILLS. U.S. exporters of technical and professional services can receive OPIC assistance if their activities take the form of a long-term investment in a developing country. Financing of these types of investment is extremely difficult to evaluate, negotiate, and make secure. Most of such investment, even if industrial or manufacturing rather than in a service industry, providing export of substantial intangible knowhow and other technical and professional capabilities. We are presently considering insuring and financing such an investment by a U.S. advertising firm setting up a branch in the Far East. Although OPIC programs normally are not applicable to "one shot" professional services contracts, we do insure investments involving licensing, technical assistance and management contracts.

Mr. PASSMAN. Thank you, Mrs. Reid. Mr. Riegle?

EMPLOYEE

Mr. RIEGLE. Thank you, Mr. Chairman. Do you require that the corporations investing in undeveloped countries employ predominately nationals so that they can eventually become self-sufficient?

Mr. MILLS. One of the criteria we use in evaluating projects for OPIC support is the extent of host country employment, separately stated for management, professional and technical and labor personnel. We ask projections for such employment not only for the construction period and the first year of operations, but also for the fifth year of operation. This tells us the extent to which the project will in-

crease its use of host country nationals in its operations. We also evaluate the company's plans for training nationals for positions with the new enterprise.

INVESTMENT EMPHASIS

Mr. RIEGLE. Is there any priority given to those companies who deal with the basic essentials of life—whose investments affect the country's education, medicine, food, textiles, or housing industries?

Mr. MILLS. We emphasize investments of some of the kinds you mentioned—subject of course to the fact that we operate in the private sector and must be concerned with commercial viability. One example of this emphasis is our willingness to exceed the usual 50 percent cost-sharing of OPIC participation in pre-investment assistance when such important projects as food processing, storage, and distribution are involved.

Guaranties and financing of housing projects were not transferred to OPIC and remain with AID. We look very closely at textile projects to be sure they do not displace U.S. domestic producers.

UNDEVELOPED COUNTRIES

Mr. RIEGLE. What are your criteria for determining whether a country is developed or undeveloped? Would you please submit your list of undeveloped countries for the record?

Mr. MILLS. The current list of countries where OPIC programs are operative is as follows.

(The information follows:)

COUNTRY LIST, INVESTMENT INSURANCE AND INVESTMENT GUARANTY PROGRAM

THE OPIC INVESTMENT INSURANCE AND INVESTMENT GUARANTY PROGRAMS ARE AVAILABLE, AS OF APRIL 20, 1971, IN THE LISTED LESS-DEVELOPED COUNTRIES AND SEMI-INDEPENDENT STATES, AS NOTED

(1) Investment insurance			(2)
Convertibility	Expropriation	War, revolution and insurrection	Investment guaranties (extended risk)
Afghanistan	Afghanistan	Afghanistan (war only)	
Antigua	Antigua	Antigua	Antigua.
Argentina			
Barbados	Barbados	Barbados	Barbados.
Botswana	Botswana	Botswana	Botswana.
Brazil	Brazil	Brazil	Brazil.
British Honduras	British Honduras	British Honduras	British Honduras.
Burundi	Burundi	Burundi	Burundi.
Cameroon	Cameroon	Cameroon	Cameroon.
Central African Republic	Central African Republic	Central African Republic	Central African Republic.
Ceylon	Ceylon	Ceylon	Ceylon.
Chad	Chad	Chad	Chad.
China, Republic of	China, Republic of	China, Republic of	China, Republic of.
Colombia	Colombia	Colombia	Colombia.
Congo (Kinshasa)	Congo (Kinshasa)	Congo (Kinshasa)	Congo (Kinshasa).
Costa Rica	Costa Rica	Costa Rica	Costa Rica.
Cyprus [1]	Cyprus [1]	Cyprus [1]	Cyprus.[1]
Dahomey	Dahomey	Dahomey	Dahomey.
Dominica	Dominica	Dominica	Dominica.
Dominican Republic	Dominican Republic	Dominican Republic	Dominican Republic.
Ecuador	Ecuador	Ecuador	Ecuador.
El Salvador	El Salvador		
Ethiopia	Ethiopia	Ethiopia	Ethiopia.
Gabon	Gabon	Gabon	Gabon.
Gambia	Gambia	Gambia	Gambia.
Ghana	Ghana	Ghana	Ghana.
Greece	Greece	Greece	Greece.
Grenada	Grenada	Grenada	Grenada.
Guatemala [1]	Guatemala [1]		

See footnote at end of table.

COUNTRY LIST· INVESTMENT INSURANCE AND INVESTMENT GUARANTY PROGRAM—Continued

THE OPIC INVESTMENT INSURANCE AND INVESTMENT GUARANTY PROGRAMS ARE AVAILABLE, AS OF APRIL 20, 1971 IN THE LISTED LESS-DEVELOPED COUNTRIES AND SEMI-INDEPENDENT STATES AS NOTED—Continued

(1) Investment insurance			(2)
Convertibility	Expropriation	War, revolution and insurrection	Investment guaranties (extended risk)
Guinea	Guinea	Guinea	Guinea.
Guyana	Guyana	Guyana	Guyana.
Haiti	Haiti	Haiti	Haiti.
Honduras	Honduras	Honduras	Honduras.
India	India	India	India.
Indonesia	Indonesia	Indonesia	Indonesia.
Iran	Iran	Iran	Iran.
Israel	Israel	Israel	Israel.
Ivory Coast	Ivory Coast	Ivory Coast	Ivory Coast.
Jamaica	Jamaica	Jamaica	Jamaica.
Jordan	Jordan	Jordan	Jordan.
Kenya	Kenya	Kenya	Kenya.
Korea	Korea	Korea	Korea.
Laos	Laos	Laos	Laos.
Lesotho	Lesotho	Lesotho	Lesotho.
Liberia	Liberia	Liberia	Liberia.
Malagasy	Malagasy	Malagasy	Malagasy.
Malawi	Malawi	Malawi	Malawi.
Malaysia	Malaysia	Malaysia	Malaysia.
Mali	Mali	Mali	Mali.
Malta [1]	Malta [1]	Malta [1]	Malta.[1]
Mauritania	Mauritania [1]	Mauritania [1]	Mauritania.[1]
Mauritius	Mauritius	Mauritius	Mauritius.
Morocco	Morocco	Morocco	Morocco.
Nepal	Nepal	Nepal	Nepal.
Nicaragua	Nicaragua	Nicaragua	Nicaragua.
Niger	Niger	Niger	Niger.
Nigeria	Nigeria		
Pakistan	Pakistan	Pakistan	Pakistan.
Panama	Panama	Panama (war only)	
Paraguay	Paraguay	Paraguay	Paraguay.
Philippines	Philippines	Philippines	Philippines.
Rwanda	Rwanda	Rwanda	Rwanda.
St. Christopher-Nevis-Anguilla	St. Christopher-Nevis-Anguilla.	St. Christopher-Nevis-Anguilla.	St. Christopher-Nevis-Anguilla.
St. Lucia	St. Lucia	St. Lucia	St. Lucia.
Senegal	Senegal	Senegal	Senegal.
Sierra Leone	Sierra Leone	Sierra Leone	Sierra Leone.
Singapore	Singapore	Singapore	Singapore.
Somali Republic [1]	Somali Republic [1]	Somali Republic [1]	Somali Republic.
Sudan [1]	Sudan [1]	Sudan [1]	Sudan.[1]
Swaziland	Swaziland	Swaziland	Swaziland.
Tanzania (excluding Zanzibar)	Tanzania (excluding Zanzibar).	Tanzania (excluding Zanzibar).	Tanzania (excluding Zanzibar).
Thailand	Thailand	Thailand	Thailand.
Togo	Togo	Togo	Togo.
Trinidad-Tobago	Trinidad-Tobago	Trinidad-Tobago	Trinidad-Tobago.
Tunisia	Tunisia	Tunisia	Tunisia.
Turkey	Turkey	Turkey	Turkey.
United Arab Republic (Egypt) [1]	United Arab Republic (Egypt).[1]	United Arab Republic (Egypt).[1]	United Arab Republic (Egypt).[1]
Uganda	Uganda	Uganda	Uganda.
Upper Volta	Upper Volta	Upper Volta	Upper Volta.
Venezuela	Venezuela	Venezuela	Venezuela.
Vietnam	Vietnam	Vietnam	Vietnam.
Western Samoa	Western Samoa	Western Samoa	Western Samoa.
Yugoslavia [1]	Yugoslavia [1]		
Zambia	Zambia	Zambia	Zambia.

[1] Program currently inoperative for legal or administrative reasons.

Note: Economically developed countries are excluded from the OPIC investment incentive programs. Investment insurance against inconvertibility and expropriation only may be available for some of the underdeveloped dependencies of France, The Netherlands, Portugal and the United Kingdom.

Mr. MILLS. OPIC has not established fixed criteria in terms of economic indicators for determining whether a country is less developed for purposes of our assistance. We seek guidance, however, from the several lists already developed by such groups as the Development Assistance Committee of the OECD, the U.S. Treasury for interest equalization tax purposes, and the OFDI's Schedule A countries. It should be noted that in some countries where the need for public sector assistance has been reduced or terminated (such as Taiwan and Iran) OPIC's programs are still necessary to encourage the private flow of capital or know-how needed to maintain developmental momentum, until they graduate from OPIC as they did from AID assistance.

TAXES PAID TO U.S. TREASURY

Mr. RIEGLE. Could you tell us how much in the way of taxes has been paid into the Treasury as a result of the investments that you have insured in undeveloped countries?

Mr. MILLS. We are trying to develop more information on this subject. We do not now have sufficient information to give a complete or accurate answer to this question. However, we estimate our programs have assisted some $4 billion of U.S. investment in developing countries. At the estimated average return of 10 percent, this would mean about $400 million per year earned, of which about half is returned to the United States, where it would be taxed—so the rate would be about $100 million per year.

Mr. RIEGLE. Is there any requirement that these companies retain any of their profits in the host country to further the growth of the company?

Mr. MILLS. No; but in many cases, OPIC encourages retention of profits and reinvestment of earnings by providing insurance coverage for retained earnings in an amount equal to the equity investment.

Mr. PASSMAN. Thank you, Mr. Riegle. Mr. Roybal?

Mr. ROYBAL. I think the subject matter has been well covered.

Mr. MILLS. I appreciate the time, Mr. Chairman. I have enjoyed it very much.

Mr. PASSMAN. If I thought you did, I would bring you back tomorrow.

Mr. MILLS. I must say I have enjoyed it and I thank you.

Mr. PASSMAN. All kidding aside, it was nice to have you gentlemen before the committee. The committee will be adjourned.

WEDNESDAY, APRIL 21, 1971.

INTER-AMERICAN SOCIAL DEVELOPMENT INSTITUTE

WITNESSES

WILLIAM M. DYAL, JR., EXECUTIVE DIRECTOR
IRVING G. TRAGEN, DEPUTY EXECUTIVE DIRECTOR
LEON M. PARKER, DIRECTOR OF ADMINISTRATION AND FINANCE

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Program by activities:			
1. Social development grants		5,000	9,000
2. Program support		182	850
3. Administrative support		624	1,094
Total program costs, funded—obligations		5,806	10,944
Financing:			
Unobligated balance available, start of year		−10,000	−24,194
Unobligated balance available, end of year	10,000	24,194	13,250
Budget authority	10,000	20,000	
Budget authority:			
Transferred from other accounts	10,000	20,000	
Appropriation (adjusted)	10,000	20,000	
Relation of obligations to outlays:			
Obligations incurred, net		5,806	10,944
Obligated balance, start of year			3,121
Obligated balance, end of year		−3,121	−6,892
Outlays		2,685	7,173

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Personnel compensation:			
Permanent positions		273	998
Positions other than permanent		100	125
Other personnel compensation		2	5
Total personnel compensation		375	1,128
Personnel benefits: Civilian employees		24	80
Travel and transportation of persons		45	192
Transportation of things		30	78
Rent, communications, and utilities		90	152
Printing and reproduction		5	10
Other services		172	220
Supplies and materials		8	21
Equipment		57	63
Grants, subsidies, and contributions		5,000	9,000
Total obligations		5,806	10,944

PERSONNEL SUMMARY

Total number of permanent positions		30	80
Full-time equivalent of other positions		4	6
Average number of all employees		19	66
Average GS grade		11.8	10.8
Average GS salary [1]		$17,503	$15,821

[1] Excludes executive level positions.

Mr. PASSMAN. The committee will come to order.

We shall hear this afternoon witnesses from the Inter-American Social Development Institute.

We have as witnesses Mr. William M. Dyal, Jr., Executive Director, Irving G. Tragen, Deputy Executive Director, and Leon M. Parker, Director of Administration and Finance.

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

Mr. DYAL. Yes, I have, Mr. Chairman.

GENERAL STATEMENT

Mr. Chairman and members of the committee: Congress created the Inter-American Social Development Institute as a public corporation in the Foreign Assistance Act of 1969. The corporation represents a

special effort of the Congress and the President to bring about a new approach to development in the Western Hemisphere. The legislative mandate is broad and suggests the need for experimentation and innovation in social development.

The Institute is just coming into being as a functioning corporation. I was appointed Executive Director only a month ago, on March 16; and, this presentation is being made as I start to work with the Board of Directors in developing the framework for and specifics of our operations. I plan to evaluate current social development activities in Latin America and the Caribbean in order to have available the kind of information required to launch a program consistent with congressional intent.

BOARD OF DIRECTORS

In August of 1970, President Nixon appointed the seven members of the Board of Directors, four from the private sector:

—Augustin Hart, Jr., executive vice president of Quaker Oats Co., who was designated Chairman of the Board

—George Cabot Lodge, Lecturer, Harvard Business School, who was designated Vice Chairman

—Charles W. Robinson, persident, Marcona Corp., of San Francisco

—Luis A. Ferré, Governor of the Commonwealth of Puerto Rico

and three from government:

—Charles A. Meyer, Assistant Secretary of State for Inter-American Affairs

—John Richardson, Jr., Assistant Secretary of State for Educational and Cultural Affairs

—John A. Hannah, Administrator of AID

At the time of the appointment of the Board of Directors, President Nixon made the following statement about the Institute:

"The Institute will provide grant support for innovative, experimental programs undertaken primarily by private nonprofit organizations. It is designed as a pilot project to bring the dynamism of U.S. and Latin American private groups to bear on development problems through people-to-people programs, and to help broaden the participation of individuals in the processes of development."

The Institute will be limited in size and scope of operations to keep it on a path of creative innovation. It will be separate from existing Government agencies and it will not have personnel permanently assigned abroad. It is my hope that the Institute will develop a fresh approach to support new and experimental efforts by private organizations to contribute to social and institutional development. . . .

The members of the Board were confirmed by the Senate in September 1970; and, the Board of Directors has met monthly since October. The Board has acted with care and deliberation in determining the organization and approach of the Institute before proceeding to expend funds or to employ staff. In October the Board appointed study groups to prepare for it the various program, organizational and administrative options available to it in establishing a new corporate body for inter-American social development. At its next scheduled meeting, May 5, the Board plans to complete its review of these studies and set forth the criteria, guidelines, and operating procedures for initiating the Institute's activities in partnership with the peoples of Latin America and the Caribbean.

PURPOSES OF THE INSTITUTE

The four major purposes of the Institute as cited in the enabling legislation are:

1. To strengthen the bonds of friendship and understanding among the peoples of this hemisphere;

2. To support self-help efforts designed to enlarge the opportunities for individual development;

3. To stimulate and assist effective and ever wider participation of the people in the development process;

4. To encourage the establishment and growth of democratic institutions, both private and governmental, appropriate to the requirements of the individual sovereign nations of this hemisphere.

These purposes are to be carried out primarily in cooperation with private, regional, and international organizations. While the stated purposes are not substantially different from previous social development programs, the attitudes and style of the staff and characteristics of the Institute promise an innovative approach to social development.

A major difference is that in practice the Institute will focus on people as the center of development, and will provide support to those who are attempting to solve their own problems. The approach of the Institute will be to share in the efforts for change and betterment of life in the hemisphere and not to impose values, methods of assistance, nor solutions to problems as conceived by the United States. We will avoid the dangers of rigid preconceptions and prescriptions as to what other peoples need and want. The Institute will operate on the assumption that human resources, ideas, and the desire for improvement are present in the peoples of the countries of this hemisphere. We will listen and be responsible to their wishes in determining how we can best share in their efforts for improving the conditions of life.

The Institute is a pilot project in U.S. assistance which has the overall goal of finding and assessing the feasibility of new approaches to develop. The Institute will search for and test development methods which can be more effective than traditional methods. The Institute will make discreet use of money and as a small experimental organization will not be encumbered by other activities which could detract from the accomplishment of the purposes set forth by the Congress.

APPROACH TO OPERATIONS

The Institute will operate through the use of grants and loans. Most grants and loans will require matching funds. We will avoid creating situations where institutions are dependent upon us for survival or continuing operations.

The Institute will avoid duplication of efforts by other development agencies. For this purpose we will establish a resource and information center on the social development activities of other institutions. This information will be available to all interested organizations.

The Institute will establish criteria for determining the specific projects which it will support. These criteria will be based on the concepts set forth in House Report No. 91–611 on the Institute: Innovation, experimentation to overcome bottlenecks to progress, sensitivity to and support of indigenous efforts by Latin American and Caribbean people themselves, independence of short-term political

factors which affect the day-to-day course of U.S. Government policy, responsible recognition and assumption of risks to help solve specific development problems, replicability, and operations primarily through and with the private sector. It is essential that these criteria be flexible and appropriate to local situations, maximize the effectiveness of our resources, and do not create a complex or burdensome bureaucracy. In this context the Institute will have no resident staff overseas.

Evaluation will be an integral part of the Institute's program activities. We are investigating various evaluation techniques and we are consulting with various organizations, including the General Accounting Office, to assist us in establishing an appropriate and effective system of evaluation.

The resources of the Corporation are limited. It will have a discrete program of its own distinct from other government and international agencies. The Institute commits itself neither to make impossible promises of accomplishment nor to exaggerate results which falsely arouse expectations.

ADMINISTRATION AND OPERATIONS

The budget presents our best estimates of funding requirements before we have had time to determine precisely what we shall do and how we shall do it. In the Foreign Assistance Act of 1969, Congress authorized not to exceed $50 million from the economic assistance funds of fiscal years 1970 and 1971 to be made available to the Corporation and to remain available until expended; $30 million has been transferred from AID to the Institute, and the Board of Directors has requested the transfer of the remaining $20 million authorized for the use of the Institute. With these resources, the Board intends to fund the Institute activities without new appropriations for an initial experimental period. Only $5.8 million is available for the program in fiscal year 1971—well below the $10 million ceiling set in the 1971 foreign assistance appropriations bill—and we estimate that approximately $10.9 million will be needed for obligation in 1972.

The estimated $10.9 million program for fiscal year 1972 will not require newly appropriated funds. Of the total, we are planning $9 million in grants for projects in a number of social areas yet to be determined by the Board. Organizational support activities are estimated at $1.9 million.

We are being very selective in staffing this small corporation in order to enlist the best professional expertise available in the various areas of social development. We estimate that no more than 30 permanent positions will be filled by June 30, 1971, and a maximum of 80 positions by the end of fiscal year 1972.

CONCLUDING REMARKS

Mr. Chairman, at my swearing-in I pledged that this corporation would be a listening, responsive, creative organization committed to grassroots social and economic development in Latin America and the Caribbean. I also pledged to keep the organization small in size, innovative in character, and independent from the ebb and flow of political currents which usually affect policy and relationships. We are guided by this pledge and committed to the intent of the Congress in establishing the Institute.

BIOGRAPHY

Mr. PASSMAN. Do you have a biographical sketch, Mr. Dyal?

Mr. DYAL. I do.

Mr. PASSMAN. Without objection it will appear in the record at this point.

(The biography follows:)

WILLIAM M. DYAL, JR.

Born: May 13, 1928, Austin, Tex.

Education:

A.B., Baylor University, Waco, Tex.

M. Th., Southern Theological Seminary, Louisville, Ky.

Special Studies:

School of Languages, San José, Costa Rica, 1953 (Currently maintain oral and written fluency in Spanish)

Group Relations Conference, Sponsored by Washington School of Psychiatry and Tavistock Institute of London at Amherst College, 1970.

Family:

Married Edith Colvin, 1950 (native of El Dorado, Ark.). Daughters: Kathy, 18; Deborah, 12; Lisa, 8.

EXPERIENCE

March 1971 to Present: Executive Director, Inter-American Social Development Institute. Created by an act of the Congress, the Institute is a public corporation designed to support social development efforts of the Latin American and Caribbean peoples. The institute will work primarily through and with private organizations, individuals and international organizations in seeking to support Latin American and Caribbean institutions and people in solving problems related to securing greater and more equitable distribution of income, goods and services; to expanding opportunity for people to participate in the critical decisions and processes affecting their lives; and to ameliorating the conflicts which inevitably accompany basic change.

September 1969–March 1971:

Peace Corps Regional Director for North Africa, Near East, and South Asia (including India, Nepal, Ceylon, Maldive Islands, Iran, Afghanistan, Turkey, Malta, Tunisia, and Morocco). 1,500 volunteers, 300 Americans and Host Country National Staff.

As Regional Director: Determined the policy direction and implementation of Peace Corps programs in these countries. Evaluated program proposals of Country Directors and program coordinators and after consideration of such matters as Peace Corps capacity and policy and of political, social and economic conditions of the countries determined programs which are to be carried out in these countries.

Evaluated proposals and recommendations from other U.S. Government agencies, universities, and private agencies for the development, implementation or modification of Peace Corps programs. Conferred with North Africa, Near East and South Asia Ambassadors to the United States on matters concerning program planning and development. Made periodic field trips to the countries.

Participated in the selection and orientation of all Peace Corps staff for the countries in which the Peace Corps had projects, exercised direct supervision over the Peace Corps Country Directors, and over the Washington support staff.

January 1967–August 1969: Director of the Peace Corps in Colombia, South America. Directed a program and administrative staff of 40 Americans and Colombians, and a peak volunteer force of 800, through a central office and 6 regional offices, with an annual budget of $2 million. Developed new programs with the Government of Colombia in the fields of agriculture production and marketing, education specialists in math and science teaching methodology and curriculum, small and medium business consultants, urban sector development, educational television, and architectual consultants. Worked in liaison with the Ministries of Education, Agriculture, and Health, and the Agrarian Reform Institute, the Colombian Institute of Administra-

tion, and the Radio and Television Institute. Served on numerous boards and commissions dealing with social and economic development issues in Colombia and Latin America.

June 1963–December 1966: Director of Organization, Christian Life Commission, Nashville, Tenn. (a small private and church-supported social issues emphasis agency). Public speaker, writer, and organizational coordinator in areas of domestic and international social issues: civil rights, war and peace, poverty, citizenship. Served as a nongovernmental observer at the United Nations. Frequent speaker at university student conferences and seminars.

January 1962–June 1963—Personnel Associate Director, Director of Orientation and Training for all overseas personnel, Foreign Mission Board, Richmond, Va.

July 1959–December 1961—Area Director for Southern South America (Argentina, Chile, Paraguay, Uruguay) with headquarters in Buenos Aires, Argentina, for the Baptist Foreign Mission Board of Richmond, Va. Directed the work of 125 overseas representatives.

August 1956–June 1959—Chief Administrator, Costa Rica Baptist Mission and Director of Orientation, all Overseas Representatives to Latin America for Foreign Mission Board.

June 1954–July 1956—Educational representative, Guatemala Baptist Mission. (Specialized training in community development for Guatemalan High School and university students; President, Guatemala Theological Seminary; Counselor for Mayan Indian Villages on community development.)

Publications:

Book, Author, *It's Worth Your Life*, Association Press, 1967 (Award Winner, Best Seller)

Book, contributor, *The Cutting Edge*, Word Books, 1969

Book, Author *Un Desafio al Discipulado*, Mundo Hispano Publisher, Buenos Aires, 1970

Honors:

Awarded The Gold Medal of Santander of Colombia by President Carlos Lleras Restrepo, 1968, Highest Decoration of the Colombian Government for Educational and Cultural Contribution to the Nation.

Mr. PASSMAN. I will yield to Mr. Hathaway.

OPERATION OF THE INSTITUTE

Mr. HATHAWAY. Thank you, Mr. Chairman.

I understand you are not here to request any money from us?

Mr. DYAL. That is right.

Mr. HATHAWAY. You just started off 1 month ago.

Mr. DYAL. I was sworn in March 16th.

Mr. HATHAWAY. Both a grant and a loan program for underdeveloped countries?

Mr. DYAL. Latin America and the Caribbean area.

Mr. HATHAWAY. How does your operation fit in with the Bank's operation?

Mr. DYAL. We were constituted as a corporation with the idea that we would function primarily in the private nongovernmental sector of Latin America.

Mr. HATHAWAY. Does the Inter-American Bank also deal with the private sector?

Mr. DYAL. It does.

Mr. HATHAWAY. You would overlap with them?

Mr. DYAL. In the sense that we would be covering much of the same area, but as a smaller operation primarily concerned with an innova-

tive approach to social development at the grassroots level. We are talking about relatively small kinds of projects.

Mr. HATHAWAY. Like what, for instance?

Mr. DYAL. For example, in areas like nonformal education, community development, and so forth.

Mr. HATHAWAY. You wouldn't be concerned with sewer treatment projects?

Mr. DYAL. No.

Mr. HATHAWAY. Just social problems?

Mr. DYAL. That is right. Identifying with existing institutions in Latin America in the social development area.

SOUND FUNDING

Mr. HATHAWAY. You have funding now from a transfer, is that right?

Mr. DYAL. That is right.

Mr. PASSMAN. Of course, you operated on appropriated funds. When AID presented their request it was understood in the amount they requested that they may fund your institution up to a certain level. If they hadn't requested the money the level we gave to AID could have been that much lower. You are operating on appropriated funds and without the request for these funds AID wouldn't have gotten as much money as they got. You will accept that as a fact, won't you?

Mr. DYAL. Yes.

Mr. HATHAWAY. That is what I meant. There is no direct appropriation and they are not asking for a direct one.

Mr. PASSMAN. A lot of these are going indirect and they run into hundreds of millions of dollars. They feed it into one big tank and draw it out through a lot of spigots. They say, "We only work on a transfer." But remember, the money was put in for the transfer.

USE OF FUNDS

Mr. HATHAWAY. Could you tell us what you are using the money for?

Mr. DYAL. No project has been voted by the Board at all at this point. In fact you are looking at one-fifth of the entire existing staff here today, these three members. The Board, in its May 5 meeting, will establish the program policies and the project criteria which will then be the basis on which we will begin to operate. So actually no funding of any kind has been decided at this point.

Mr. HATHAWAY. Are you limited by law as to the amount of loan or grant that you can make?

Mr. DYAL. No, we are not.

Mr. HATHAWAY. You can make any size?

Mr. DYAL. That is right.

LOCATION OF STAFF

Mr. HATHAWAY. You say you are not going to have any bureaucracy in Latin America?

Mr. DYAL. There will be no overseas resident staff at all.

Mr. HATHAWAY. Wouldn't it be a good idea to have a resident staff to be closer to the scene of the actual development and see just how the loans and grants are progressing?

Mr. DYAL. Actually we feel by having a very small resident U.S. staff and operating through existing institutions in the field, whether Latin American, United States, or European, we would not be operators ourselves of projects in the field. Thereby you take away the necessity for resident staff overseas.

Mr. HATHAWAY. But there would be some U.S. Government representation in the areas where the money is being spent?

Mr. DYAL. The evaluation and audit process would function much as in the past, with the opportunity for feedback on what is occurring there.

LOANS AND GRANTS

Mr. HATHAWAY. You have two loan windows; will there be hard and soft loans?

Mr. DYAL. That is still, I think, for the Board to decide.

Mr. HATHAWAY. You can go either way under the law.

Mr. DYAL. That is my understanding. Since we are under the U.S. Public Corporation Act, I cannot exactly describe the process.

Mr. HATHAWAY. Is there a percentage of the funding that has to be for grants and a percentage for loans, or can you shift it?

Mr. DYAL. Not under the legislation. That would be something for the Board to make a judgment on.

Mr. HATHAWAY. So you have considerable latitude?

Mr. DYAL. Yes; there is latitude.

The real latitude, of course, is in terms of the total amount of the authorization which was $50 million in the Foreign Assistance Act of 1969, and the past fiscal year limitation was for $10 million, but the total is no-year money. The idea is that this would be an experimental kind of program with the authorization in one package for a multi-year basis. The latitude stops at the point of the amount of funding.

Mr. HATHAWAY. Which is $50 million, you say?

Mr. DYAL. That is right.

Mr. HATHAWAY. You have $50 million which can be soft or hard loans or can be grants or loans in the discretion of the Board?

Mr. DYAL. That is right.

Mr. HATHAWAY. You can give away the whole $50 million if you want to.

Mr. DYAL. No; we could not, because of the limitation of $10 million during that particular fiscal year. You are speaking of the entire period?

Mr. HATHAWAY. Well, you could give away the $10 million until the next fiscal year if you wanted to. You wouldn't have to loan any of it.

Mr. DYAL. That is right.

If I might add one other comment, it is because we are dealing basically with men, or people, as the core of our concern rather than capital development or large scale institution building that provides one other side of the framework of latitude. You could describe it that way. It would help to make judgments about the amount of a loan or a grant. I think, also, it could be stated that the congressional intent, as I understand it, in the creation of the Institute was to steer away from

large-scale long-term institution building, but rather to fund projects close to the people, in which they are involved, in the process of what would be called grassroots social and economic development. That is another side of the latitude to keep in mind.

COORDINATION OF PROGRAM

Mr. HATHAWAY. Do you intend to dovetail your operations with grants and loans made from other sources?

Mr. DYAL. To coordinate, I think, sir, would be a better way to express it. We would not attempt to move into an area where there is large-scale funding by AID or by the Inter-American Development Bank, or by UNDP, but rather to find the gaps which exist which would allow a particular project conceived by the people and which would be to their benefit to have the kind of expression and support it needs.

Mr. HATHAWAY. But there might be some social programs that could be coordinated with some economic development and I presume you would have close liaison with the Inter-American Bank?

Mr. DYAL. Yes. We definitely feel this is one of the congressional intents, to coordinate and be sure what operations we are engaged in relate to the kinds of activities that are going on and would not simply duplicate at points.

Mr. HATHAWAY. Thank you, Mr. Chairman.

Mr. PASSMAN. Mr. Long.

INSTITUTE APPROACH

Mr. LONG. As you note on the first page of your statement, the Institute is attempting "to bring about a new approach to development in the Western Hemisphere." I realize that you have just organized the Institute, but your statement is very general. I would like to hear some specific examples of the type of "new approach" you are attempting in South America. What do you have in mind for Colombia? For Venezuela? Are you contemplating any projects in Chile?

Mr. DYAL. I recognize that the statement is very general. We are still in the process of organization and are seeking to define policies, criteria, and guidelines. In talking of a new approach, I was speaking of style—style of involving the Latin American and Caribbean private sector in efforts for their own development. We do not want to program for groups in countries, but rather reinforce and support their efforts. Consonant with this new approach, decisions will be made on countries in which the Institute will operate only after we have much fuller information about the interests of private groups in the respective countries and the Board of Directors has a chance to evaluate the relative opportunities in each country.

Mr. LONG. Assuming, as you say on page 5, that all Western Hemisphere people "desire" improvement, I would like to know how you are going to get around the "desires" of ruling oligarchies to block improvement in the ordinary man's life.

Mr. DYAL. The emphasis of the legislation on "working primarily through and with the private sector" allows the Institute to select targets of opportunity. In almost all the countries, organizations dedicated to social development and change exist; and, under the legislation, our purpose is to help reinforce such organizations. Reorienting

the oligarchs in the various countries should be effected by groups and events within their own countries.

CONTINUE INTERESTED IN PROGRAM

Mr. LONG. I note on page 6 that your program will require matching grants and loans in most cases. I would like to know what Latin American nations have indicated interest in working on educational, technical, or other projects with the United States on a matching basis.

Mr. DYAL. Once again, Congressman, our primary purpose is to work through and with the private sector. Before the Institute Board of Directors appointed me, they asked that a survey be made of ongoing efforts for social development in Latin America. This survey revealed that many private Latin American foundations have been set up by companies and families to help promote some aspects of social development, especially medical research; that United States, Latin American, and European private organizations which are operating in the area have developed promising efforts in various countries; and that many of these organizations, with discreet inputs of additional funds, could substantially broaden their efforts and become truly significant instruments of change. In the first phase of the Institute's work, we shall seek to identify these indigenous institutions dedicated to social development and to consider with them the desirability of Institute financial or other cooperation in improving their efforts. Since we wish to avoid long-term financial dependence on the Institute for the programs developed, we will seek to work out a realistic formula in each case to match Institute inputs with those to be raised by the cooperating organization.

Mr. PASSMAN. Mrs. Reid.

PRIVATE SECTOR

Mrs. REID. What group in the private sector would you deal with?

Mr. DYAL. That is still to be determined. The Board, at its coming May 5 meeting, will determine its program policies and project criteria and out of that then would flow the first kinds of contacts with both United States and Latin American institutions.

The legislation calls for support of both Latin American and Caribbean and international or regional as well as U.S. institutions. Therefore, the Board must still make a determination within that wide latitude of the kinds of support it would provide to institutions, but they would be private, nongovernmental.

Mrs. REID. It is my understanding that in this Institute there are no commodities involved.

Mr. DYAL. That is right.

Mrs. REID. You are dealing with expenses and personnel?

Mr. DYAL. That is right.

PROJECT DETERMINATION

Mrs. REID. How are you going to determine the projects? How will the Board determine this? What will be the criteria?

Mr. DYAL. Obviously there are many proposals that will be submitted in the process of the coming months and years. We feel strongly that the intent of the legislation was to be responsive to Latin American and Caribbean peoples and their concerns about

social development rather than the Institute being only a U.S. interpretation of those concerns.

At this point the Board must make a determination about how to be responsive. We feel that this means being able to listen to what the peoples of Latin America and the Caribbean are saying their real priorities are rather than determining it from an ivory tower in Washington.

Mrs. REID. Will this be on a country-to-country basis?

Mr. DYAL. No; it is not government-to-government. The legislation very distinctly states we are to relate to the private nongovernmental area in Latin America. This means relating to institutions there, listening to them by means of ad hoc committees, advisory councils, whatever you can find to try to find what the people are saying, what has worked, what they believe will work and where they would like to see this kind of funding provided for the support of their programs.

COORDINATION

Mrs. REID. What coordination would you have with groups such as CARE? Would there be coordination with a group of that kind?

Mr. DYAL. Coordination in the sense that we hope to be a clearinghouse of information about everything going on in social development in Latin America and the Caribbean. That does not exist anywhere today.

For example, CARE does not really always know what the other kinds of private or nongovernmental organizations—United States, European, or Latin— are doing; and, if the Board of Directors determines that this is the type of activity which the legislation intend us to carry out, we would hope to provide that kind of clearinghouse of information and knowledge so that we could put one in touch with the other, as well as being able to provide help ourselves when appropriate.

Mrs. REID. The Board will meet in May?

Mr. DYAL. Yes, on May 5. I was sworn in 1 month ago so we are in a very formative stage. One reason our statement is so slim is because it represents our first month of operations.

Mrs. REID. That is all at this time, Mr. Chairman. Thank you.

Mr. PASSMAN. Mr. Riegle?

INSTITUTE OPERATION

Mr. RIEGLE. Thank you, Mr. Chairman. In developing democratic institutions in Latin America, which I understand is part of your charter, what limitations do you see in working with those countries that have military dictatorships?

Mr. DYAL. The legislation does not require the Institute to operate in all countries. It should also be noted that it will operate through and with the private sector.

Mr. RIEGLE. In designing innovative or experimental social development programs for the Caribbean, how would you take advantage of the "black power" movement or would you ignore it?

Mr. DYAL. This is a question which can only be faced in the context of each specific project. The Institute intends to be responsive to Caribbean interests as expressed by and through the private sector.

POPULATION PROBLEM

Mr. RIEGLE. It is my understanding that the most significant problem in Latin America today is population growth. Will any of your experimental projects deal with this problem?

Mr. DYAL. The Board of Directors has not yet set forth the policy on the specific program categories in which the Institute will become engaged. We recognize that considerable efforts are now being carried out by a number of organizations; it is not our purpose to duplicate these efforts. We will, within the guidelines set by the Board, be alert to special opportunities in all significant fields, including population growth.

POLITICAL RISKS

Mr. RIEGLE. What are the political risks in supporting innovative or experimental programs in the Caribbean or Latin American countries? The host country will certainly be aware that the U.S. Government is funding the program and will therefore look to the United States if something goes awry. Do you have any way of minimizing this risk?

Mr. DYAL. The Institute will in no way disguise the source of its funding. The political risks vary from project to project. The Board intends to review each project carefully and determine the risks involved. We intend to minimize these risks by being open in our programing, by providing information about the uses and purposes of our funding, and by establishing informational liaison with governments, even though we will be working primarily through and with the private sector. The Board is carefully weighing alternative operating styles so that it can choose the most appropriate for both meeting the objectives of the legislation and keeping U.S. exposure to political risks at a minimum.

Mr. PASSMAN. My line of questioning should not be interpreted as personal.

We have about as much use for this organization as I would have for a battleship out in the desert. If there was ever anything presented to this committee that should be thrown out, it is this outfit.

Everybody is trying to get their finger into the pot.

SIZE OF FOREIGN AID

Inasmuch as you are being funded out of AID, I guess this would be called foreign aid or foreign assistance, would it not?

Mr. DYAL. It was created in the Foreign Assistance Act of 1969.

Mr. PASSMAN. That would be your interpretation, that it would fall under the broad scope of foreign aid.

Mr. DYAL. The broad scope.

Mr. PASSMAN. Do you know what the President has requested for foreign aid and foreign assistance for fiscal year 1972?

Mr. DYAL. No, sir; I do not.

Mr. PASSMAN. Have you any idea?

Mr. DYAL. No.

Mr. PASSMAN. Could you give us a rough guess?

Mr. DYAL. I wouldn't even attempt, sir.

Mr. PASSMAN. Do you have any idea?

Mr. PARKER. A little over $2 billion, I believe.

Mr. PASSMAN. What is your guess?

Mr. TRAGEN. I don't know.

Mr. PASSMAN. $13,517,628,000 under 27 different spigots, is the figure.

It has been splattered all over the table, just like you would drop an egg; not only do they cut it up into 27 different spigots, but now they are proposing new legislation to break it up further and I don't believe the entire 535 Members of the Congress, both Senate and House, could spend the rest of the year on this bill and know too much about it.

OPENING OF INSTITUTE

You are asking for an additional $11 million limitation on top of the $10 million that we permitted you to operate on last year and you have only been in business 30 days; is that right?

Mr. DYAL. That is right; we are in business only 30 days.

Mr. PASSMAN. So half of the fiscal year was actually gone before you went into business; is that right?

Mr. DYAL. No, sir; that is not right.

Mr. PASSMAN. You said you went into business in January. Do you want to stick with that or not?

Mr. DYAL. The Board began functioning in October.

Mr. PASSMAN. When did you really open up shopkeeping?

Mr. DYAL. The shopkeeping was opened March 16.

Mr. PASSMAN. When did the Board officially come into existence?

Mr. DYAL. October.

Mr. PASSMAN. What did you say earlier about January?

Mr. DYAL. I don't believe I said January, sir.

Mr. PASSMAN. Then you officially began business in March?

Mr. DYAL. That is right; 1 month ago.

DISBURSEMENTS MADE

Mr. PASSMAN. So you are 30 days old officially and you have $10 million that you haven't spent a nickel of?

Mr. DYAL. Yes, we have spent some.

Mr. PASSMAN. How much have you spent out of the $10 million?

Mr. DYAL. At this point——

Mr. PARKER. Including what we owe to AID in reimbursement, probably $250,000 or $300,000. By the end of the current fiscal year or through June 30, 1971, our current estimate of fiscal year 1971 obligations for organization support, by object class, is as follows:

Object class	*In thousands of dollars*
11 Personnel	137
12 Personnel benefits	9
21 Travel and transportation of persons	10
22 Transportation of things	5
23 Rents, communications and utilities	20
24 Printing and reproduction	1
25 Other services	180
26 Supplies and materials	5
31 Equipment	50
Total	417

Mr. PASSMAN. How many do you have on the payroll and what do you estimate the payroll has been March through April, up to now?

Mr. PARKER. As of April 21 there were 12 people actually working for the Institute, under a variety of payment and reimbursement ar-

rangements. Their payroll cost for the month of April, including benefits, will total $23,690.

From the starting period through the 30th of June we estimate $137,000.

TYPE OF PROJECTS

Mr. PASSMAN. This is really a paper corporation. You tell these countries to come and visit you and you will talk about our social problems.

There are no commodities involved whatsoever, is that right?

Mr. DYAL. That is right, there are no commodities involved.

Mr. PASSMAN. It is just socializing and visiting with each other?

Do you know of any kind of project anywhere in America that hasn't already been started under the foreign-aid program, somewhere?

Mr. DYAL. I think, if I could respond to that, in my statement, for the record, that it states the difference——

Mr. PASSMAN. I don't care how strongly you feel. I want to know if you know of any project that we ever had in America that we haven't started somewhere on the face of the earth under some previous foreign-aid program?

Mr. DYAL. I am not sure I could answer that.

U.S. DEFICITS

Mr. PASSMAN. I don't think you can either.

Here is what is frightening me.

You didn't know anything about what the AID program called for and neither did this other gentleman. He said about $2 billion. We find all brands of it, some good, some bad, some in between, is $13.5 billion.

Do you know what our borrowed debt is as of this time?

Mr. DYAL. No, sir.

Mr. PASSMAN. Do you have any idea?

Mr. TRAGEN. It is over $420 billion.

Mr. PARKER. Slightly over $400 billion.

Mr. PASSMAN. The true debt is $1,630 billion.

We have one section called borrowed money and we have another section which says, "We are going to give you this in subsequent years for some service you previously rendered and for which we created no reserves." Those are known as statutory obligations.

We have been so lax in our work as a committee in passing legislation that we have built up an indebtedness to where every man, woman, and child in America owes their Government $8,205 and I am not too sure they are not going to catch up with us just about next year and recognize what is going on if we keep depreciating the purchasing power of these dollars.

You know nothing about what we are going to spend on foreign aid. You have no idea what our public debt is. I want to be completely fair about this. Do you have any idea what our deficit will be on June 30 of this year?

Mr. DYAL. No, sir; I am sorry I don't.

Mr. PASSMAN. Yet you ask this committee to appropriate money.

Mr. DYAL. I am not asking the committee to approprate money.

Mr. PASSMAN. Yes you are.

Mr. DYAL. No, sir.

Mr. PASSMAN. You are spending money and you say "We need this much money so we can allocate funds to this program." It takes appropriated funds, doesn't it?

Mr. DYAL. My understanding is that the authorization was there in the beginning.

Mr. PASSMAN. I am talking about the appropriation and not the authorization.

You cannot operate unless we appropriate the funds to AID.

Mr. DYAL. I understand that.

Mr. PASSMAN. Do you know what our deficit is going to be this fiscal year as of June 30? Do you have any idea?

Mr. TRAGEN. According to the estimates of the Wall Street Journal somewhere in the neighborhood of $20 billion.

Mr. PASSMAN. What is your guess?

Mr. PARKER. I would guess in the range of $20 billion.

Mr. PASSMAN. It is going to be about $26 billion. If you use the so-called unified budget, it will be $21 or $22 billion.

Here you are asking that you be allowed to dissipate this money on some kind of a semisocial function when we have to borrow it and we don't know how we will ever be able to pay it back. We just load unborn generations with these tremendous debts. It is frustrating, gentlemen. I think you could render a better service to take a report back and recommend that this organization be abolished. It is frightening.

INTEREST ON THE PUBLIC DEBT

Do you know what the interest is costing us on the public debt per day?

Mr. PARKER. No.

Mr. PASSMAN. Have a guess. You are a nice fellow. A hundred thousand, 200,000?

Mr. PARKER. Probably more than the 200,000 figure.

Mr. PASSMAN. I just want you to guess. Just the interest alone that we are paying on what we borrowed. Give me a guess.

Mr. PARKER. A million dollars? I really don't know.

Mr. PASSMAN. $51 million a day. It shows how little of your homework you have done. I say this to be constructive. You guess a million and it is $51 million. It is actually over $2 million an hour.

Can't you see where we are going by starting these programs? Now you are getting started on a new program. Do you know in how many nations we were disbursing foreign aid in fiscal year 1971? Give us a guess.

Mr. DYAL. Three-quarters of the nations of the world in some fashion.

Mr. PASSMAN. How many would you say? Give me a number.

Mr. PARKER. Two hundred fifty.

Mr. PASSMAN. You only have 136, so you couldn't disburse in 250 nations.

Mr. PARKER. Probably 80 I would guess.

TYPE OF LOAN TO BE MADE

Mr. PASSMAN. Ninety-nine nations and four territories of the world. You are familiar with the World Bank, the International Develop-

ment Association, the Export-Import Bank, the Asian Development Bank, the Development Loan Fund under AID, the loan operation under the military and, of course, OPIC, the new one. All of those people are in the money-lending business; aren't they? Now, why are you getting into it? What kind of loans are you going to make?

Mr. DYAL. The only kinds of loans I would see us making, Mr. Chairman, would relate to very small kinds of loans to people who probably could not obtain it anywhere else.

Mr. PASSMAN. In other words, you find a man who can't pay his debts, won't pay his debts, and you don't think he can ever pay and you make him a loan?

Mr. DYAL. I am not speaking of that.

A small Farmers Cooperative in Honduras, for example, would have difficulty.

Mr. PASSMAN. How do you know? You have every kind of lending agency you can think of. In Honduras you have the Honduras Government. You have the agencies under the Honduras Government. We have an AID program feeding into their government and we are told that under the Alliance for Progress and the Inter-American Bank and all the other programs for Latin America, the purpose is to furnish capital for these small people, these sharecroppers. How can you repudiate what previous witnesses have said? They have said that was the purpose of their program; to get down to the grass roots level. They have so many little banks down there you can't get them all on 10 pages of paper. Now you want to get into it.

Mr. DYAL. I think it is still difficult, however, for small groups of people with concern about building the kinds of opportunities for themselves and for their children, whether it is in nonformal education or it is in better farming methods or whatever, to get some kinds of funding.

I am also speaking of small grants, really seed money. We have done very little of this through the history of the United States in Latin America.

Mr. PASSMAN. If I was fair to myself, I would take my leave now and go back and get the next plane out of here because it is people like you, who are nice fellows, but you get your mind all twisted up on these so-called do-good programs everywhere that are actually bringing us to our knees economically.

AMOUNT OF FOREIGN AID DISBURSED

Do you realize our public debt exceeds the public debt of all the other nations of the world by billions of dollars? Now, we are friends and we are Americans and we are taxpayers. You are scholars in your field. Do you have any idea how much foreign aid we have given away since we started this program in 1946? What would your guess be? Just a rough guess. I am directing the question to Mr. Parker. He looks like an alert young man.

Mr. PARKER. Since 1946?

Mr. PASSMAN. Yes. That is when foreign aid started. What would be your guess? Foreign aid and assistance. Disbursements made to foreign nations. Considering all repayments and disbursements, what would the net figure be?

Mr. PARKER. It is a long time since I have seen a current estimate of that figure. Again, a wild guess, $60 or $70 billion.

Mr. PASSMAN. You know there is a lot of spread between 60 and 70, isn't there?

Mr. PARKER. Yes.

Mr. PASSMAN. But I will accept that; $208 billion.

Mr. DYAL. Does that include security assistance, Mr. Chairman.

Mr. PASSMAN. It does not include the military. It includes foreign aid and assistance. These green books here. You people shouldn't have gone into business until you had a course in this. I mean it sincerely.

Now you start a new little program.

BOARD OF DIRECTORS

How many on your board of directors?

Mr. DYAL. There are seven members of the board.

Mr. PASSMAN. Do you have a biography of each board member that you can furnish the committee?

Mr. DYAL. Yes, we can. I will provide that.

Mr. PASSMAN. Let's provide it to the committee before we mark this bill up.

How many of them came out of the banking sector?

Mr. DYAL. So far as I know, sir, none of them is out of banking.

Mr. PASSMAN. But you are getting into a semibanking business, aren't you? You are making loans. Wouldn't you call that banking?

Mr. DYAL. Four are private sector and three are public officials. I am certain there is banking expertise among them.

Mr. PASSMAN. I asked how many came out of the banking sector and you said none. When can we have those biographies?

Mr. DYAL. We will have them for you tomorrow.

AUGUSTIN SNOW HART, JR.

Chairman of the Board

Mr. Hart is group vice president for international operations and director of the Quaker Oats Co., where he has served as an executive since 1937. With an A.B. from Princeton University, he served as a lieutenant colonel in the U.S. Army during World War II. Mr. Hart is a trustee of the United States Trust Co. of New York; a director of Lake Forest College, Lake Forest, Ill.; a trustee of Presbyterian-St. Luke's Hospital of Chicago; a director of the Lyric Opera in Chicago; and a director of the Chicago Council on Foreign Relations.

GEORGE CABOT LODGE, JR.

Vice Chairman of the Board

Mr. Lodge is an associate professor and director of the division of international activities of the Harvard School of Business. He served with the Naval Reserve during World War II and received his A.B. cum laude from Harvard in 1950. He was a reporter with the Lyon Daily Evening Item of Boston and the Boston Herald before becoming Director of Information for the U.S. Department of Labor and subsequently the Assistant Secretary of Labor for International Affairs. He has served as the U.S. representative to the governing body of the International Labor Organization (ILO) and was its chairman from 1960 to 1961. Mr. Lodge is a trustee of the Carnegie Endowment for International Peace, a member of the Council of Foreign Relations, and the author of numerous publications and books, including *Spearheads of Democracy and Engines of Change.*

LUIS ALBERTO FERRÉ

Mr. Ferré is currently the Governor of Puerto Rico and member of the Republican National Committee. He served as a member of the Puerto Rican House

of Representatives for 4 years. He was an organizer of the Puerto Rican Cement Corp. and served as cochairman of its board of directors. He was president and chairman of several industrial affiliates of Ferré Industries; chairman of the board and president of Ponce Hotel Corp.; treasurer of Igualdad, Inc.; and director of the Bank of Ponce. Governor Ferré holds a B.S. from Massachusetts Institute of Technology; a LL.D. from Springfield College, Mass.; DCL, University of Puerto Rico; and Doctor of Humanities from the Inter-American University of Puerto Rico. Governor Ferré has also been active in Puerto Rican civic affairs, having served as general chairman of the Puerto Rican YMCA; president of the Federated YMCA's of Puerto Rico; and a member of the Citizens Advisory Commission for Government Security. He has received numerous distinctions, including the award as Puerto Rican of the Year by the Knights of St. John of Chicago; the Order of Vasa from Sweden; and Knight of the Holy Sepulchre from Pope John XXIII.

JOHN ALFRED HANNAH

Dr. Hannah is the Administrator of the Agency for International Development after having served as president of Michigan State University since 1941. Besides his B.S. from Michigan State, he has numerous honorary degrees from other universities in the United States and abroad. He has also held appointments as Assistant Secretary of Defense for Manpower and Personnel; Chairman, U.S. Section, Permanent Joint Board on Defense, Canada and the United States; Chairman, Board of Directors of the Federal Reserve Bank of Chicago, Detroit Branch; Chairman, Federal Commission on Civil Rights; member, President's Council on Equal Opportunity; member, Education Policies Commission of the National Committee on Immigration Reform; member, International Development Advisory Board, Point IV program; and numerous other Government appointments. Dr. Hannah, among other distinctions, is a recipient of the Medal of Freedom Award; an honorary professor of the School of Business, São Paulo, Brazil; a former president of the Association of State Universities and Land-Grant Colleges; and former chairman of the American Council of Education.

CHARLES APPLETON MEYER

Mr. Meyer is Assistant Secretary of State for Inter-American Affairs. After receiving his B.A. from Harvard University, he became associated with Sears Roebuck and Co. for 30 years. He was Sears manager of foreign administration, president of the Bogotá, Colombia, subsidiary, and later a vice president and director of the company. He served as a captain in the U.S. Army during World War II. In addition, Mr. Meyer was actively involved in other business affairs, having served as a director of various corporations, including: Philadelphia National Bank, Dow Jones, Inc., Allstate Insurance Co., Gilette Co., and United Fruit Co. He has also been active in civic affairs, having been president and/or director of various institutions, including: Jarvis Christian College, Philadelphia Museum of Art, and the United Fund of Philadelphia.

JOHN RICHARDSON, JR.

Mr. Richardson has been Assistant Secretary of State for Educational and Cultural Affairs since 1969. With an A.B. and LL.B. from Harvard University, he served with the U.S. Army, European theater of operations during World War II, receiving the Bronze Star. After the war, he was admitted to the New York Bar Association, and was associated with the law firm of Sullivan and Cromwell of New York for 6 years. He subsequently joined Paine, Webber, Jackson, and Curtis, investment bankers in New York City, where he was a partner for 11 years. He has been president of Free Europe, Inc. (Radio Free Europe), the International Rescue Commission, founder and member of the Polish Medical Air Project, chairman of the New York City Metropolitan Mission, member of the Council on Foreign Relations, and member of the National Association for the Advancement of Colored People (NAACP).

CHARLES W. ROBINSON

Mr. Robinson has been president and general manager of Marcona Corp., since 1961. After receiving his A.B. (cum laude) in international economics from the University of California, he served during World War II as a lieutenant in the U.S. Navy and then obtained his MBA from the Stanford Business School in 1947. In 1948, he joined the Golden State Dairy Product Co., as assistant

to the product service manager and in 1950, McKinsey and Co., as a management consultant. He then rose through various executive positions with the Utah Construction Co., before becoming vice president and general manager of Marcona Mining Co., in 1959. Mr. Robinson is also president of Waverly Mining Co.; director and member of the executive committee, Crocker-Citizens International Corp. of San Francisco; director of Homestake Mining Co.; trustee of Mills College; active in trade and tourism development of the Pacific Basin; and active in civic affairs in the San Francisco Bay area.

START OF OPERATION

Mr. PASSMAN. As of this time you have no applications and are just now getting in business?

Mr. DYAL. That is right.

Mr. PASSMAN. You don't know whether you will need $10 million or $750,000. You don't know what you will need, do you?

Mr. DYAL. That is correct.

Mr. PASSMAN. I thank you for being completely honest. You are in business with $10 million. We only have 2½ months to go in this fiscal year. You haven't spent a dime of it other than a little housekeeping. Yet you come in and say you need a $11 million limitation. Of course, you must never confuse the fact that you get your money out of AID—but it is appropriated funds. They take a lot of money and they fund you out of the foreign aid appropriation, just as in the case of a technical aid program in Brazil.

Mr. DYAL. This is strictly a transfer of funds in our case. It is an appropriation, but it is a transfer of funds.

Mr. PASSMAN. It doesn't work that way. They list the basic projects, these 4,416 projects around the world, as "We need this much money for this category; this much for that category," so you are a part of the request. You come under that overall "spigot" arrangement.

If we didn't have your operation, we wouldn't have had to put in $10 million for it. Is that not correct?

Mr. DYAL. That is correct.

Mr. PASSMAN. And the same thing would be true this year?

Mr. DYAL. Yes.

BOARD OF DIRECTORS

Mr. PASSMAN. We will wait for that biography list tomorrow on the Board of Directors.

Mr. DYAL. Also their names are in our statement.

Mr. PASSMAN. I am sure they are nice young folks who need the job.

Mr. DYAL. They are nonpaid Board members.

Mr. PASSMAN. The most nonproductive person is one who is not paid.

I think in most cases that is true.

Mr. DYAL. The Board members represent, individually and corporately, a unique and considerable body of expertise in development and in Latin America.

Mr. PASSMAN. We will see what their backgrounds are. There are a lot of people in these aid programs dishing out money who don't know any more about what they are doing than I would practicing surgery but that built up in the Government and what can we do about it?

You know it is the easiest thing in the world to get an authorization through. I referred to these statutory obligations that put us $1,630 billion in debt in the present and the future. This is not imaginary;

these are the facts of life. So many of us are thinking about the next election, not about the welfare of the next generation. It is easy to promise and hard to accomplish.

TRANSFER OF FUNDS

The authorizing legislation provided, not to exceed $50 million be made available to the Institute from Economic Assistance funds. That is correct, isn't it?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. According to the budget and your statement, $30 million has been transferred from AID to the Institute, is that correct?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. And the Board is requesting additional transfer of $20 million, making a total of $50 million. It is 2½ months to the end of this fiscal year and you haven't spent a dime other than a little bit for housekeeping, which amounts to——

Mr. DYAL. There has been no project funding at this point.

Mr. PASSMAN. Then you need this $50 million just about like I would need a 747 airplane to go to and from my district, don't you?

Mr. DYAL. No, sir; the $50 million represents a multiyear——

Mr. PASSMAN. I say you have no need for it. You have no projects and you don't even have an application pending; do you?

Mr. DYAL. There are many applications, sir; yes.

Mr. PASSMAN. From where?

Mr. DYAL. From all over the private sector in Latin America and U.S. private organizations working in the area.

Mr. PASSMAN. Who are they? Let's get some names in the record.

Mr. DYAL. At this point I can give you no names, sir.

Mr. PASSMAN. This is just an invisible thing we are dealing with. You actually don't have a single application that you know that you will fund?

Mr. DYAL. That is right, until the Board establishes the policy so we can move without funding indiscriminately.

Mr. PASSMAN. Gentlemen, I think it is simply ridiculous that you would waste ink in putting in a request that you be given $50 million to play with when you may not even need $6.30. As far as I am concerned, we are going to try to call a halt to these little organizations. One popped in yesterday—OPIC. As I say, I ran into three fellows before I could get off the elevator trying to get funds to finance little projects. They will probably get it too. We will borrow it. We may not be able to pay it back, but they will get the funds. They will put enough pressure on until we will fund it.

What other sources of funds, if any, will be available to the Institution?

Mr. DYAL. No other sources at this point, sir.

Mr. PASSMAN. Since your authorization funds are to be transferred to the Institute in fiscal year 1971, do you anticipate you will request additional authorizations in the near future?

Mr. DYAL. No, sir; we do not.

Mr. PASSMAN. At this time I am sure that you will agree that the committee was using wisdom and giving you plenty of latitude and an abundance of funds when we placed a limit on obligation of the $10 million last year?

Mr. DYAL. Yes, sir; I can understand the limitation.

Mr. PASSMAN. You indicate that one of the purposes of the Institute is to strengthen the bonds of friendship and understanding among the peoples of this hemisphere. Don't you think with all the assistance provided to Latin America by the United States over the years, the bonds of friendship should already be sufficiently strengthened.

Mr. DYAL. I don't think it is a one-time strengthening, sir. I believe it is a process that has to continue. You have new generations——

Mr. PASSMAN. Just keep pouring it out. Is that what you mean? You are going to make loans. Do you have any idea how much money we have given to Latin America since we started this AID program in 1946?

Mr. DYAL. No, sir; I do not.

Mr. PASSMAN. We will shock you again. I will ask Mr. Tragen.

Do you have the figure? What would your guess be?

Mr. TRAGEN. I would say something in the neighborhood of $14 billion.

Mr. PASSMAN. Well, in this instance I really think that you may be high. If you look at this one disbursal spigot without looking at the others, it is $11.472 billion.

Do you know of anything that you can do with this $10 million, that hasn't been done with this $12 billion I just referred to?

Mr. TRAGEN. I think, sir, some things could be done to be responsive to people.

Mr. PASSMAN. What do you mean by being responsive to people, my friend?

Mr. TRAGEN. Because I think at this point it is important that what is done in Latin America be done with, alongside of, opportunities already begun. Self-help——

Mr. PASSMAN. Now, you believe me, my friend, I represent 206 million Americans on this side of the table. Maybe you should be over here and I should be over there, but fortunately or unfortunately I am selected to do this job. The best service you could render would be to make a strong recommendation to the President that this Institute be abolished and go ahead and resign and prevail upon your board to resign and put you in the field where you could make a contribution to the economy rather than taking out of the economy.

Believe me, we have gone absolutely insane with this give-away, hand-out type of program—I don't know where the end is going to come.

Let me say this to you: There is no such thing as a bad program to hear the people justify it.

If we had some legal way of confiscating all the wealth in America and turning it into dollars, we still would not have sufficient funds to do all the things labeled desirable by the liberals. I am not being critical. A man has a right to his own views, but it is impossible for this economy to provide the money that we want to give away, domestic and foreign. What we are doing is confiscating the savings of the thrifty, through inflation. You are destroying the value of people's insurance through inflation. Inflation is a very dangerous disease. I was elected to Congress in 1946. The savings I had when I came here through my Government's extravagance, have lost 58 percent of its purchasing power. The man who never had anything advocates spending more, but anyone who worked as hard as I worked to buy

a little insurance and to see my Government legally confiscate it through inflation worries me. Would it worry you?

Mr. DYAL. Mr. Chairman, I can share many of your concerns. I recently came from the private sector.

Mr. PASSMAN. I wish you would follow my recommendation and abolish this organization and let the President give you one of the big problems of helping to contribute to the economy rather than taking away from it.

ORGANIZATION OF THE INSTITUTE

Would you tell the committee briefly how the institute plans to bring about social development in Latin America if you are going to keep all your personnel domiciled in Washington?

Mr. DYAL. Primarily, sir, by working through existing organizations there rather than duplicating them with another overseas mission.

Mr. PASSMAN. But you are working wholly in Washington?

Mr. DYAL. Our headquarters base would be in Washington.

Mr. PASSMAN. Would your men go out and travel all over these so-called underdeveloped or developing countries?

Mr. DYAL. Our staff who would have charge of helping to set up the kinds of relationships with these institutions would be the ones who would travel to Latin America and the Caribbean.

Mr. PASSMAN. That fact is, you don't know what you are going to be doing. You are waiting to establish some guidelines to get going?

Mr. DYAL. The Board of Directors must establish these policies.

Mr. PASSMAN. Is mine a fair statement? You don't know what you are going to do. You are waiting to form guidelines. Is that a fair statement, that all of this is to come in the future? It hasn't been finalized yet?

Mr. DYAL. We are in the process of doing it now.

Mr. PASSMAN. It is in the stage of being formulated and guidelines are being drawn.

It follows nevertheless that you want an $11 million limitation this year and the additional transfer so you can have a big slush fund of $50 million to play with. You have asked for it, haven't you?

Mr. DYAL. I wouldn't see it as a slush fund, sir.

Mr. PASSMAN. Those are my words and I will stick with them. I have seen this money dissipated so long and so extravagantly until I can't help but get worked up over it.

Are you familiar with the Small Business Administration that operates in our country?

Mr. DYAL. Yes, sir, I am.

Mr. PASSMAN. I believe the Small Business Administration was set up to make loans to small business people in this country, is that right?

Mr. DYAL. That is my understanding.

Mr. PASSMAN. Do you know Americans can't get a dime out of the Small Business Administration, a direct loan; that they have completely frozen those funds and we have closed projects down? The only type of consideration you can get out of SBA is to have a super-duper financial statement and then get your bank to make all the loan, put up all the money with the SBA guaranteeing up to 90 percent or else have the SBA authorize the applicant to get the bank to put up 25 percent and they will put up 75 percent. You just can't get it.

Do you know of a single AID project that has been put in the deep freeze in America because of appropriations last year?

Mr. DYAL. No, sir.

Mr. PASSMAN. And no other AID agency. Thank you for the answer. Not one of them, my friend. Yet we have closed them down in America, all over America, in all 50 States. Preferences goes to foreign nations. It is just that simple. AID never lost a dime.

I don't think it would be quite fair for me to continue questioning you because you haven't gone into business yet. You just have to get your guidelines set up.

Under the Alliance for Progress programs, this pretty much covers the waterfront, does it not, in Latin America?

Mr. DYAL. Over the last 10 years it has been the primary program.

Mr. PASSMAN. It covers the waterfront. Large projects, small projects, farm projects, housing projects. Almost everything is covered under the Alliance for Progress, isn't it?

Mr. DYAL. Especially on the capital side, sir, in the last 5 or 6 years.

Mr. PASSMAN. And the social side, too. A lot has gone into education, has it not?

Mr. DYAL. If you consider large-scale operations.

Mr. PASSMAN. We will get right down to the one-room schoolhouse. The intention was to have the Alliance for Progress give a broad application to the problems of Latin America. I believe also we have the Inter-American Development Bank, to which we have contributed hundreds of millions of dollars and they have different windows, under the Inter-American Bank, for large loans, small loans, hard loans, soft loans, short-term and long-term loans, do they not?

Mr. DYAL. Yes, sir.

Mr. PASSMAN. That would cover rural, farming, as well as urban, would it not?

Gentlemen, I don't know how in the world you can do anything beneficial in Latin America with this organization.

The committee will adjourn. Later on it may be necessary to call you back.

EXPORT-IMPORT BANK

(Note: After the regular hearings on the Export-Import Bank, the following information was supplied to the Committee:)

EXPORT-IMPORT BANK OF THE UNITED STATES,
Washington, D.C., June 3, 1971.

Hon. OTTO E. PASSMAN,
2108 House Office Building,
Washington, D.C.

DEAR MR. PASSMAN: Knowing of your intensive interest in a true solution to the balance of payments of this country and the part Eximbank can and should play, I thought perhaps you would like my summary comments made after hearing all witnesses who presented their testimony during the sessions of the Subcommittee on International Trade of the Banking and Currency Committee.

We have also discussed with some of your colleagues the possibility of including language in the proposed legislation that would clearly give the Appropriations Committee full review of any borrowings from Treasury and require Eximbank to justify such borrowings in advance. We hope that we shall be able to discuss this subject with you.

Sincerely yours,

HENRY KEARNS

Eximbank Comments and Clarifications Of Testimony In Hearings on HR 5846 and HR 8181:

Basic Role and Function of Eximbank

The Export-Import Bank's deep involvement in the development of United States exports through daily negotiations with buyers, sellers, and financial institutions, provide an unparalleled ability to obtain realistic, objective, and current knowledge of international trade, its constant changes, opportunities, and problems.

The mission of the Export-Import Bank is clear, to support those exports which demonstrably are in the total national interest; to use its resources in achieving a favorable balance in our international trade account; to assure a maximum of American jobs from the sales of products, services and materials to overseas buyers, and to add to the stability of the economy by increasing the opportunities for the sale of American products throughout the world.

In the conduct of its various programs, Export-Import Bank activities directly relate to practically every segment of our nation's economy--labor, agriculture, manufacturing, engineering, trading, transportation, insurance and a host of others. Perhaps the most important relationship, however, is with the banking community where Eximbank as a basic tenet cooperates with private financial institutions to the maximum degree in the support of American trade. The following comments on Eximbank's services, programs and operating policies thus are founded on a composit of this deep and continuing involvement.

Types of U.S. export transactions assisted by Eximbank

The scope of Eximbank's services are illustrated by these features of its comprehensive program:

1. For massive transactions:

Relating to individual transactions of $10 million or more including such major exports as nuclear, thermal and hydroelectric power; aircraft; steel mills; dams and irrigation projects; chemical, petrochemical, and other major manufacturing facilities; mining; transportation and communications.

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This type of transaction usually involves several suppliers coordinated by our managing entity.

Projects of this magnitude involve not only the large volume prime contractors but a multitude of small and medium-sized suppliers from throughout the country. For example, upward of 7,000 subcontractors and suppliers participate in the development of a single nuclear power plant.

Requirements: Availability of millions of dollars; terms long enough to allow repayment from earnings of the project; willingness when appropriate for a government entity to assume risk which would not be possible for an individual or group of private companies; and ability to achieve interest rates that are favorably competitive with those offered by other exporting countries.

Eximbank's programs relating to this type of transaction include participation direct lending programs and financial guarantees of loans by private lending institutions to overseas buyers.

2. For medium-size transactions:

Relating to individual transactions of $1 to $10 million including such typical exports as farm equipment, earth moving equipment, all types of machinery, smaller aircraft, locomotives, agricultural products, etc.

Exports of this magnitude usually involve only one supplier, but again this supplier may be dependent upon large numbers of subcontractors. The principal need of this group of suppliers is ready accessibility of financing for these fast moving days of international trade. Other needs include a quick, responsive competitive financing package administered largely through commercial banks, repayment terms that are comparable with those offered by the principal competitors, and interest rates favorably competitive.

Eximbank's programs for transactions of these types include the commercial bank discount program, the newly developed Cooperative Financing Facility, export insurance, bank and financial guarantee program, participation financing; engineering, feasibility study financing and leasing.

3. For smaller transactions:

The number of such transactions handled greatly exceed those of the larger categories; the amounts range from $1,000 to $1,000,000 involving agricultural products including cattle, all types of machinery including machine tools, trucks, buses, etc.

Requirements: The principal need is assurance to the exporter that his commercial and political risk is no greater than it would be in a domestic sale and that the financing is available in amounts, terms, and conditions that are competitive with suppliers from other countries.

Programs offered by Eximbank to support such export transactions are the commercial bank discount program; export credit insurance; commercial bank exporter guarantees; the relending program; the Cooperative Financing Facility; engineering and feasibility study financing, leasing; etc.

Eximbank's Programs and Record

All of Eximbank's programs are important to their respective clientele. The record for Fiscal 1970 tells the story of the comprehensive nature of Eximbank's comprehensive operations:

1. Direct Loan Program

Eximbank's participation loan program supported $3,390 in exports. $1,153 million was supplied directly by commercial banks, of which $372 million was guaranteed or insured by Eximbank. Eximbank's direct loan program was significantly enlarged through the recently adopted participation procedure. It serves as the backbone for most larger transactions.

2. Financial and Bank Guarantees

Guarantees to protect financial institutions and exporters from loss that is beyond their control is an essential element in broadening the nation's export base. In Fiscal 1970, 902 guarantees were issued for $711 million in exports.

Eximbank's guarantee program has been used more fully during the past two years than ever before in its history. Eximbank believes that wherever possible, private institutions should be encouraged to finance exports with EIB taking risk where appropriate and where additional exports will result. In fiscal 1970 the guarantee program was 154 percent over FY 1969. It is anticipated that this rate of growth should continue. PEFCO will become a bustantial user of Eximbank's guarantee authority.

3. Export Credit Insurance

Through the FCIA Insurance Program, Eximbank supported $1,240 million in exports financed by exporters and their commercial banks in approximately 2,700 transactions. Since 1962, this program has served an important segment of U.S. exporting industry. Intensive study during the past year, however, revealed that this program can and must be broadly expanded to reach its potential for supporting U.S. sales. Thus, a major reorganization of FCIA including its service and mechanical operations is now in progress. New comprehensive policies have been developed and special policies are now available and increased attention has been given to the development of contact with the smaller business enterprises.

4. Commercial Bank Discount Program

During fiscal 1970 Eximbank's discount program supported $585 million in exports through 83 banks covering 711 transactions. Known formerly as the commercial bank export credit loan program, this "discount program" was first initiated by Eximbank in 1966. It was used by only 21 banks involving $490.6 million in exports in its first 2-1/2 years. Since the complete reorganization of the program on July 1, 1969, it has been used by 98 banks. The purpose of the revised program is to encourage commercial banks to participate in export financing by assuring them liquidity when it is needed and to provide them appropriate government assistance in achieving interest rates, terms and conditions that are favorably competitive in the world market. Since initiation of the revised program on July 1, 1969, 1,360 cases have been processed involving $1,018 million and 98 banks located in all parts of the country.

Funding limitations created by the unified budget have severely constrained Eximbank during the past two years and have necessitated very careful and limited application of this program. At no time could Eximbank assume contingent demands beyond budget impact authority granted by the Executive and Legislative Branches through the unified budget process. Therefore, the size, administration, and scope of the program has necessarily been less than comprehensive. We believe that within these severe limitations, it may be classified as an unqualified success. Procedures, requirements and administration of the revised plan have made this program truly automatic and self policing. The extensive experience from the past two years development provides a solid base to broadly expand the program if needed funding is assured.

Exclusion of Eximbank from the budget computations as proposed in HR 5846 will allow this expansion which appears to be responsive to the views expressed during the hearings on this legislation. Specifically the Eximbank program as proposed will accomplish the following:

a. Assurance that discound related funds will be used for export.

Eximbank's procedure of requiring that funds related to the discount program must apply to current exports, assures that this requarement is satisfied. Money thus disbursed must be used for an export transaction.

b. The Discount Program must be truly automatic.

Under the proposed expanded Eximbank discount program, any commercial bank can request an advance commitment by telex or letter specifying the amounts, nature of the transaction and terms, etc. Eximbank will respond immediately with a commitment to purchase or lend against the subject current export transaction the amount of the unpaid balance at any time and for the entire life of the transaction. The transaction can be "put" to Eximbank at such times and for such periods as the applying bank finds desirable and necessary.

c. Continuity.

The assurance of funding as provided in HR 5846 would allow Eximbank to assure commercial banks that its facilities will be available for any amount at any time for any number of transactions.

d. Flexibility.

Under the Eximbank program the commercial bank makes the decision as to amounts, term, conditions and interest rates.

e. Length of terms.

The discounting bank together with the buyer and the seller are free to negotiate the necessary length of terms so long as they do not exceed those customary in international practice. Prompt guidance is available from Eximbank.

f. Interest rate spread.

In a multitude of consultations and in the administration of the current program, it is clearly apparant that in nearly all cases a one percent spread is adequate to pay costs with a very modest profit and more important

it does not encourage excessive "lay off" at government expense. In the existing program, to assure that demands will not exceed available funds as restricted under current budgetary limitations, it has been necessary to reduce the spread to one-half percent where Eximbank takes the risk through its insurance or guarantee. If the funding inherent in HR 5846 is adopted Eximbank will eliminate this differential and henceforth discount at a one percent spread whether or not the transaction is guaranteed or insured. Further, with adequate funding resulting from the budget exemption, the current six percent minimum could be eliminated thereby leaving interest rate determination to the negotiating parties, bank, buyer, and seller.

g. Guarantee against abuse or windfall profits.

The Eximbank firmly believes the spread between the rate charged the customer and the rate charged by Eximbank should be such that it would discourage a "put" to the Eximbank unless liquidity is needed--and in that event only for such periods as it is actually needed. It is our belief that government entities should not become profit feeding facilities. For competitiveness of interest rates, under the Eximbank procedure, the commercial bank determines, in consultation with the buyer and the seller, the interest rate that is acceptable. Eximbank relates its interest charge to that negotiated by the parties, thereby assuring a maximum of responsive flexibility at all times.

While smaller banks have complained that the limited spread of the current discount program does not provide profitability, larger banks have found it to be profitable when they consider sideline benefits and efficiency of operation. The Eximbank proposed program would continue to avoid windfall profits. This program is simple, self policing, needs no new money, and is self funding and proven.

h. Risk

Under the normal conditions the commercial bank takes the risk on the transaction inasmuch as Eximbank does not investigate the underlying paper. However, the commercial bank or the exporter can cover the risk through use of either the insurance or guarantee programs of Eximbank. In the operation of the existing discount program during FY 1970 37 percent of actual discounted transactions were covered by this assurance.

i. Cost.

There is no charge for the Eximbank advance commitment. The bank can proceed with its export financing with the knowledge that in case need, liquidity will be furnished on an automatic basis that does cover cost.

j. Source of money.

With enactment of HR 5846, Eximbank would borrow money to fund the discount program, as needed, from the public or from overseas sources. Such borrowing would have minimal effect on domestic inflation and monetary control.

k. Expansion.

If funding provided under HR 5846 is allowed, Eximbank would immediately broaden the medium-term discount program to assure its availability through the full life of any transaction. Continuing the advance commitment procedure provides assurance of liquidity to the participating bank. In addition, an effective short-term discount program would be undertaken based on extensive study, consultation with exporters and the banking institutions and from the considerable experience gained from the current medium-term program. The short-term program would be responsive and of sufficient magnitude to cover all appropriate needs.

l. Congressional control.

Under the Export-Import Bank discount program, Congress would maintain absolute control through its annual limitations on the Bank's authorization levels. The Committees on Appropriations determine annually the magnitude and administration of each program. Each year, Eximbank will submit its program to the Office of Management and Budget and the President will submit the approved programs to both Houses of Congress through the Appropriations Committees. Such Congressional control would not be maintained if the discount program were lodged with the Federal Reserve Board.

5. Preliminary Commitment Program

The Eximbank preliminary commitment procedure adopted in late 1969 now gives accurate advance information of potential transactions, provides a clear guide to activities of competitor countries and assists the supplier, purchaser, and financial institution to speedily conclude useful transactions. For example, 488 preliminary commitments have been issued covering $7,896 million ranging in size from $70 thousand to $300 million in 87 countries. $2,400 million in PC's have already been converted to actual business and after deducting cancellations, delayed transactions, $5,093 million still remain as pending business. The purpose of the Preliminary Commitment procedure is to provide advance knowledge of the

amounts, terms, conditions, and qualifications under which Eximbank financing would be available for a specific transaction. The P.C. is available without cost to buyers, sellers and financial institutions. It has proven to be useful to the supplier by giving him the needed knowledge of available financing when he makes his proposal. It is useful to their buyer by giving him advance notice of financing that is available for use in his planning and negotiation with colleagues and associates. It is useful to Eximbank, giving it advance information of potential needs and opportunities. It provides negotiating opportunity early in a transaction and meaninful information upon competitive terms.

6. Cooperative Financing Facility

Eximbank's exciting Cooperative Finance Facility program will take the facilities and resources of Eximbank directly to the "Market place" to assist in the sale of American products and services and to marshall additional funds to finance those sales. A detailed description of the program is attached as Appendix A. The CFF is available to banks located outside the United States, either indigenous banks or branches and affiliates of United States banks. Eximbank will make available a line of credit to cover 50 percent of the financed portion of any transaction usually following a ten percent downpayment. The cooperating facility provides the other 50 percent of the financed portion. The cooperating facility administers the loan, determines the creditworthiness of the borrowers and takes all commercial risk. Eximbank and the Cooperating Facility disburse its money to the U.S. seller. In most cases through agreement with an appropriate government agency in the country of the foreign Cooperating Facility Eximbank will take exchange and other political risk. The results: Banks located in the overseas markets encourage their purchasers to buy American products; financing is readily available for the medium and smaller-size transactions and assists in the growth of smaller industries and businesses. The program provides meaningful encouragement and promotional incentive to the U.S. supplier, large or small, to make a marketing effort, knowing that he has a friendly responsive financing institution right in the market place. (Appendix A)

7. Profile of Eximbank's Customers

Through its many programs, Eximbank serves business and industry, large and small. Direct loans which usually apply to the large companies have the additional advantage of indirectly financing subcontractors and suppliers. The Eximbank-FCIA insurance program is readily available and used by smaller institutions. The guarantee program is readily available and used by banks, large and small. The attached partial list of U. S.

suppliers using the guarantee and insurance programs in Fiscal 1970-71 illustrates the breadth of customer coverage from just this one Eximbank operation. (Appendix B)

8. Aircraft

While U.S. commercial jet aircraft manufacturers have been the major beneficiary of Eximbank's lending programs during the past two years, modification of the Eximbank's program has resulted in increasing sales while decreasing Eximbank proportional direct loan participation. The attached chart illustrates this trend. (Appendix C)

Operation of these and the other Eximbank programs must be based on flexibility and continuity. Both will result from enactment of HR 5846.

In the course of testimony before the Subcommittee on International Trade of the House Banking and Currency Committee, several questions were raised on other facets of Eximbank operations. Appropriate comments follow:

a. Collections and losses.

Eximbank's history of repayments on its loans, guarantees and insurance is exceedingly favorable. The total defaults and delinquencies account for less than one-half of tone percent of the total coverage of Eximbank. There is every reason to believe that with careful administration and full use of Eximbank's important place in export financing this record can be continued.

b. Development Assistance (AID)-Eximbank financing.

In annual hearings before the House and Senate Appropriations Committees, Members of Congress have repeatedly expressed the conviction that Eximbank cannot and must not conduct its affairs in a way that would be considered as "development assistance". Therefore, Eximbank has scrupulously restricted its activities to a commercial export financing to supplement, assist and moderate private financing where necessary.

c. Country limits.

During the course of the testimony, a representation was made that Eximbank establishes formal and informal country limitations and that when those limitations are reached, financing is refused. Eximbank does not

establish nor use country limitations. It examines each case on its merits, with four tests involved: first; is it an economically viable purchase or contract; second, does it refer entirely to U.S. products or services; third, in keeping with the provisions of the Holland Amendment is there assurance that use of the export will not adversely impact the U.S. economy; fourth, is there reasonable assurance of repayment. This reasonable assurance test would involve the ability of a country to service dollar debt, therefore, at such times as it is concluded that the borrowing country could not reasonably be expected to service the proposed credit assistance may be denied.

d. Changing world trade conditions.

The world trade picture is constantly in a state of flux for many reasons. The composition of products and services change, needs of buyers change, efforts of U.S. sellers ebb and flow, individual countries are in prosperous and depressed conditions, and the world monetary situation changes. The strength of the Eximbank position is that when domestic money is in short supply or high priced the proposed flexibility as inherent in the provisions of HR 5846 would allow Eximbank to effectively counter these negative factors. Eximbank's only function is that of furthering the nation's exports and not that of maintaining or controlling the monetary system of this country. Observation of the changes that take place in the export financing assistance provided by governments of other countries reveals that supporting devices are subject to change at any time. For example, at this time France and Belgium have suspended any Central Bank export credit discount; United Kingdom recently changed its discount rate from 5-1/2 to 7 percent; Netherlands is severely limiting its discounting; Germany's current discount rate is 7 percent; the United Kingdom and Canada export insuring agencies have recently adopted much of the Eximbank format of operation.

e. Competitive interest rates.

It was reported during the hearings that competing countries provided low interest rates made available from their respective central banks. Mr. Lawrence McQuade of Procon actually returned this subject to true context--he explained that not all countries discount through Central banks and that interest rates change as monetary conditions change. Further, he reported that the low rates used as examples are nearly always applicable to only a part of a transaction with the balance coming from the private banking sector at high rates. He specifically commented that Eximbank's procedure usually produces a total effective rate to the buyer that is highly

competitive. We, thereby, stand by our prepared statement that in medium and long-term transactions, Eximbank under its present format can offer truly competitive financing support to the extent that funding is assured.

f. President's Commission on Budget Concepts.

The unified budget has been referred to in the testimony before the committee. It has been implied that the members of the President's Commission were unanimous in the opinion that exceptions to the general budget concept would be undesirable. To the contrary, however, several members of the Commission during the past months have expressed the opinion that the unique contribution that Eximbank can make toward solving this nation's chronic balance of payments problems justifies an exception to the blanket requirements resulting from adoption of the Commission's recommendations.

Since hearing the testimony of Comptroller General Staats and observing the interest of the committee, I have communicated with some members of the Commission--former Secretaries of the Treasury, Henry Fowler and Robert B. Anderson; Chairman of the President's Council of Economic Advisers, Dr. Paul McCracken and Senator Milton Young. Attached are telegrams received from Secretaries Fowler and Anderson, and a letter dated March 8, 1971, from Dr. Herbert Stein who,on May 25, 1971, in a telephone conversation, confirmed that this is the expressed view of Dr. McCracken (who is out of the country). Senator Young has authorized me to report to the committee that he concurs in the opinion expressed by Secretary Anderson and supports the provisions of S. 581 and HR 5846 exempting Eximbank from the computations and totals of the Budget. (Appendix D)

Purpose and Effect of HR 5846

The test of competitiveness is found in the actions, reactions, and results in the marketplace. Eximbank with its constant presence in the market can and will respond to changing competitive situations. It will encourage more banks, manufacturers, traders and others to market their products and services abroad. It will assure continuity and flexibility to achieve exports in amounts and at times they are needed.

Attachments
June 1, 1971

APPENDIX A

EXPORT-IMPORT BANK OF THE UNITED STATES

REVISED COOPERATIVE FINANCING FACILITY

The Export-Import Bank of the United States will cooperate with eligible and approved institutions to assist purchasers of non-military equipment, materials, components and services exported from the United States.

The principal purpose of the CFF is to provide responsive and appropriate financing of purchases from the United States by smaller and moderate sized buyers through institutions located in their own country. However, there are no limits in the magnitude of any proposed transaction that may be submitted to Eximbank for approval by the Cooperating Institution (CI).

Upon approval of an application for a cooperative financing facility, Eximbank will allocate a "line of credit" in a mutually agreeable amount in multiples of $1,000,000, to be disbursed to suppliers or transfer agents on approved transactions in behalf of purchasers in the country of the CFF. In all transactions the CI will make the decision regarding creditworthiness of the purchaser (borrower) to pay. There will be no commitment fee for a CFF agreement, except for the procedure described in paragraphs (b) and (1) which follow.

Operating guidelines of the CFF are:

(a) Each transaction shall be jointly financed through disbursement of funds by the CI and Eximbank. Eximbank will provide up to 50 percent of the financed portion after an appropriate cash or down payment, and the CI will provide the remaining 50 percent of the financed portion, usually disbursed pari passu.

(b) There will be no commitment fee for a CFF agreement until each individual transaction has been given final approval by Eximbank. Then Eximbank will charge a commitment fee of 1/2 percent on the undisbursed balance of each approved transaction beginning 30 days after final Eximbank approval.

(c) Length of repayment and grace period before payments begin shall conform to international practice unless exceptions are specifically authorized by Eximbank. A schedule of typical terms is attached as Annex A. Exceptions may be requested by telex which must include all

pertinent information concerning the individual transaction. Eximbank will respond promptly.

(d) Eximbank shall provide the funds for its part of each transaction at its standard interest rate on the date the CFF agreement is authorized (currently 6 percent per annum).

(e) It is anticipated that repayments of principal and interest will be made pari passu to all lenders in a transaction.

(f) Subject to prior Eximbank approval, applicable taxes, devaluation insurance or other financial charges may be included in the charges to the borrower.

(g) Regulations governing Eximbank require that U.S. goods and services financed by Eximbank credits and financial guarantees and which are shipped by ocean vessels shall be transported on ships of U.S. registry except to the extent that a waiver of such requirement is obtained from the United States Maritime Administration. The cost of shipment on U.S. vessels may be included in financing under this program, but the cost of shipment on non-U.S. vessels is excluded.

(h) The effective period of the CFF agreement shall be for 15 months from the date the agreement has been finally approved by Eximbank. Consideration for renewal or extension will be given on request.

(i) Non-Government CI's are eligible for assurance of convertibility from local currency to U.S. dollars through a Special Guarantee by Eximbank at a cost of 1/4 of 1 percent on gross outstanding balances on completed transactions.

(j) Under certain circumstances a CI may find it necessary to finance its portion of a transaction from resources other than its own. In this event, Eximbank is prepared to guarantee repayment of loans extended to the CI by financial institutions in a "third" country for 50 percent of the financed portion of the transaction in addition to providing its direct loan portion. Each transaction requiring this service will require prior approval of Eximbank and a guarantee fee of 1/2 percent per annum on the unpaid balance will be charged on the guaranteed portion.

(k) The CI may charge the purchaser interest at a rate up to 8-1/2 percent per annum on those funds made available to the CI by Eximbank. The interest rate to the purchaser on these funds furnished by the CI should be negotiated directly between the CI and the purchaser.

In the event that the CI borrows funds to finance its portion of a transaction as provided in paragraph (j) and uses Eximbank's Financial Guarantee, then the CI may charge the purchaser interest at a rate not higher than 2-1/2 percent per annum above the effective rate of combined

interest on the funds provided to the CI by Eximbank and the other institution.

(l) Should a CI desire discretionary authority to approve transactions, Eximbank upon request from the CI is prepared to allocate, for this purpose, an appropriate portion of the total CFF line of credit to be loaned in amounts up to $200,000 for any transaction or up to a total of $500,000 to any one purchaser by the CI without prior Eximbank approval. However, to comply with Eximbank requirements, a commitment fee of 1/2 percent on the undisbursed portion of the Special Discretionary Line of Credit must be charged beginning 30 days after approval. There will be no duplication of commitment fees. (See paragraph (b).)

Miscellaneous

In cases of larger transactions or those requiring special conditions the CI is invited to request Eximbank cooperation through use of the Preliminary Commitment procedure. In such cases all interests of the CI will be observed and protected.

Applications for a CFF line of credit shall include all information outlined in Annex B.

Applications for loans under a CFF line of credit shall include all information outlined in Annex C.

The Cooperative Financing Facility program is a part of the export expansion effort of the United States, as supported by Eximbank. It provides an effective companion program to the Eximbank relending facility, supplementing that facility with flexibility and continuity.

Additional information on the Cooperative Financing Facility may be obtained from the Office of the Vice President for Product Financing.

(Eximbank TELEX 89-461)

May 1971 Public Affairs Office

ANNEX A

COOPERATIVE FINANCING FACILITY

Credits for the purchase of U.S. goods and services, where Eximbank participates in or assists the financing in any way, should normally have terms of repayment which do not exceed the terms commercially customary in international trade. This phrase means that the terms for the goods or services generally are common to the accepted commercial practice of exporters in a number of countries and that any terms which appear long on the foregoing basis still may be acceptable in some instances if it can be shown that the foreign terms are publicly supported.

Typical Terms for Capital Equipment

A. General

Contract Price	Credit Period
Up to $ 25,000	Up to 3 years
$25,000 to 150,000	4 years
over 150,000	5 years

B. Special Categories

1. Sales to distributors

   a. Passenger automobiles - 2 years (also private users except on large fleet purchases)

   b. Busses - 5 years

   c. Other equipment - 3 years

2. Sales of breeding cattle

   a. Up to $150,000 - 2 years

   b. Over $150,000 - 3 years

3. Agricultural products - 1 year

4. Large "ticket" items such as jet aircraft and locomotives - terms to be determined through inquiry by telex.

C. Time of Payment of First Installment

1. Integral type items usable upon delivery - 6 months from delivery

2. Items usable only upon final delivery - 6 months from final delivery

3. Installation by supplier - 6 months from completion of installation and acceptance by buyer

ANNEX B

APPLICATIONS FOR A CFF LINE OF CREDIT

Applications for consideration by Eximbank of a Cooperative Financing Facility Agreement may be submitted by overseas branches or affiliates of United States private banks, private commercial and investment banks in any country where Eximbank is authorized to do business, official government institutions such as planning organizations, banks, development agencies, and trading companies or other institutions which significantly are involved in international trade financing. Applications should include the following information:

a. Full identification of the institution, including the names and official titles of officers, the nature of the institution, the address, telex designation, etc.

b. A statement concerning the volume of exports expected to be financed through this program for the first full year of operation, and the authorization requested of Eximbank.

c. A brief statement of any plan or program that the officers of the applicant have developed to effectuate the program.

d. Identification of the officer who will be authorized to execute documents and who will be in charge of the program.

e. Financial statements and such other information as will be necessary to establish the financial responsibility of the applicant.

f. Assurance that any required governmental approval can be secured.

Where feasible, communications relating to this program will be channeled through telex -- if not applicable, by mail.

ANNEX C

INDIVIDUAL LOAN INFORMATION TO BE SUBMITTED ON EACH CREDIT
UNDER THE CFF PROGRAM

1. U. S. Supplier or Exporter (name and address):

2. Purchaser (name and address, including country):

3. A. Type of enterprise (manufacturing, distributor, etc.):

   B. Annual volume of sales or production:

   C. Number of permanent employees:

4. A. Ownership - public or private:

   B. Number of shareholders:

5. Products or services to be purchased from the U.S.:

6. Contract price: US$_____

7. Cash payment (at least 10%): US$_____

8. Financed portion:

Eximbank	US$_____
CFF Financial Institution	_____
Other Lenders	US$_____
Per Section (j) of description	

9. Eximbank's guarantee will/will not be requested by other lenders. Names and addresses of other lenders:

10. Proposed disbursement schedule: Disbursements of credits are usually made pari passu, if exception is required please explain.

11. Proposed terms of repayment: All credits repayable pari passu in _____ successive (semiannual) (quarterly) installments beginning _____, 19__.

12. A. Interest rate to purchaser: _____% per annum on Eximbank funds; _____% per annum of Cooperating Institution funds; _____% per annum is effective rate for total financing.

- or -

   B. If transaction is financed under conditions of Section (j) of description with Eximbank guarantee, rate to purchaser: _____% per annum on Eximbank funds: _____% per annum on funds of other lender (if more than one lender, give rate for each lender); _____% per annum is the effective rate cost to the Cooperating Institution; _____% per annum is the interest to the purchaser.

13. Approximate date of shipment:

14. Cooperating Institution is expected to submit duly executed promissory notes prior to disbursement by Eximbank. Additional documentation as required must be supplied as scheduled.

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Definitions and Abbreviations

1. Eximbank - or Export-Import Bank -- or EIB.

2. Eligible Institutions: Non-U.S. banks and financial institutions; branches, foreign affiliates and correspondents of U.S. banks, trading and distribution companies.

3. Cooperating Institution (CI) -- any one of those designated in number (2) as approved.

4. Cash or Downpayment - minimum 10 percent of sales price or purchase, but an amount that is appropriate to the nature of the transaction as per Annex (A) - Schedule of Terms and Conditions.

5. Pari Passu -- Parallel or equal as to amount and time.

6. Third Country means a country other than that of the Cooperating Institution.

APPENDIX B

EXPORT-IMPORT BANK OF THE UNITED STATES
U.S. SUPPLIERS* USING EXIMBANK'S MEDIUM-TERM GUARANTEE AND INSURANCE PROGRAMS

A B DICK CO
A J ARMSTRONG CO INC
A KUBLES WESTERN CORPORATION
A O SMITH CORPORATION
A-T-O INC
ABARCA WAREHOUSES CORP
ABBEY ETNA MACHINE CO.
ACKER DRILL COMPANY INC
ACME EQUIPMENT CO
ACME PROCESS EQUIPMENT CO
ACME-CLEVELAND CORPORATION
ADDRESSOGRAPH MULTIGRAPH CORP
AERO COMMANDER ACCEPTANCE CORP
AERO COMMANDER INC.
AEROGLIDE AMERICAS, INC.
AEROGLIDE CORP.
AEROSTAR AIRCRAFT CORPORATION
AIR CARRIER SERVICES CORP
AIR MAC INTERNATIONAL CORP
AJAX INTERNATIONAL CORP
AJAX MAGNETHERMIC CORPORATION
ALCO PRODUCTS INC
ALDEN INTERNATIONAL S A
ALFORD MANUFACTURING COMPANY
ALFRED KUBIES WESTERN CORP
ALL METALS PROCESSG CORP
ALLEN SHERMAN HOFF CO. INC.
ALLENBERG COTTON CO INC
ALLIED BANK INTERNATIONAL
ALLIED PAPER & TINPLATE MCH CO
ALLIED PRODUCTS CORPORATION
ALLIS CHALMERS INTERNATIONAL
ALLIS CHALMERS MFG CO.
ALLSTATES INTERNATIONAL CORP.
ALMALY TRADING CORP.
AM. HOSPITAL SUPPLY EXPORT CO.
AMER INTERNATL TRADING CO
AMER RADIATOR & STAND SAN CORP
AMERACE CORPORATION
AMERESCO INC
AMERICAN BILTRITE RUBBER CO
AMERICAN CAN COMPANY
AMERICAN CRYOGENICS INC
AMERICAN DEFIBRATOR INC
AMERICAN ELECTRIC FUSION CO
AMERICAN FLETCHER NATIONAL BNK
AMERICAN HOIST & DERRICK CO
AMERICAN HOIST DEVELOP. CORP.

*THE BANK'S AUTOMATED RECORDS ARE PRESENTLY INCOMPLETE, VIS A VIS THE U.S. SUPPLIER, IN SOME CASES. THIS PARTIAL LISTING INCLUDES THOSE SUPPLIERS ON THE BANK'S COMPUTER FILE ON JUNE 1, 1971.

AMERICAN HOSPITAL SUPPLY CORP
AMERICAN HYDROTHERM CORP.
AMERICAN INSTRUMENT COMPANY
AMERICAN LAUNDRY MACH INDUSTS
AMERICAN LAUNDRY MACHINERY
AMERICAN MACHINE TOOL EXPORT A
AMERICAN MEDICAL CORPORATION
AMERICAN METAL CLIMAX INC
AMERICAN MOTORS CORP.
AMERICAN MOTORS PAN AMERICAN
AMERICAN NATIONAL BANK & TRUST
AMERICAN RADIATOR & STANDARD
AMERICAN SNOWBLAST CORP
AMERICAN STANDARD INCORPORATED
AMERICAN STEEL EXPORT CO INC
AMERICAN STERILIZER COMPANY
AMERICAN TRANSPORT EQUIP. CO.
AMERICAN TYPE FOUNDERS CO INC
AMERTOOL SERVICES INC.
AMETEK INC
AMF INTERNATIONAL
AMPEX INTERNATL OPERATIONS INC
AMPEX PAN AMERICAN COMPANY
AMPEX WORLD OPERATIONS SA
AMPRESS SALES CORPORATION
AMRON CREDIT CORPORATION
AMSCO INTERNATIONAL COMPANY
AMTEA CORP
AMTHAI PUBLICATIONS INC
ANDERSON CLAYTON AND COMPANY
ANGELUS SANITARY CAN MACHINE C
ANSOR CORPORATION
ANTHONY GIBBS & CO INC
APPLETON MACHINE COMPANY
APPLICATION ENGIN CORP
AQUA-CHEM MANUFACTURING CO.
ARIZONA BANK
ARMCO STEEL CORPORATION
ARMSTRONG CORK COMPANY
ARVIN INTERNATIONAL INC
ASHWORTH BROS INC.
ASIAN TRACTOR COMPANY LTD
ASSOC MFG INTERNATL S A
ASSOCIATED MANUFACTURERS
ASSOCIATED MFG. INTER. CORP.
ATAKA AMERICA INC
ATEC CORP.
ATKINS & MERRILL INC
ATLANTA GROTNES MACHINE CO.

AULT & WIBORG CO.
AUTO SPRINKLER CORP OF AMERICA
AVCO CORPORATION
AVCO DISTRIBUTING CORPORATION
AVIATION ASSOC OF PUERTO RICO
AVIQUIPO INC
AVRA VALLEY AIR
AXELSON DIVISION OF U S INDUST
AZTEC CORPORATION
B & J MACHINERY COMPANY
B. F. GOODRICH CO.
BABCOCK AND WILCOX CO.
BACON AMERICAN INTERNATIONAL
BAHNSON COMPANY
BAIRD-ATOMIC INC
BAKER OIL TOOLS, INC.
BALDWIN-EHRET-HILL INC
BALDWIN-LIMA-HAMILTON CORP.
BALFOUR MACLAINE INC
BALFOUR MACLAINE INTERNATIONAL
BALFOUR WILLIAMSON, INC.
BALTIMORE BROOM MACHINE CO.
BANDAG INC
BANGOR PUNTA OPERATIONS INCORP
BANK OF AMERICA
BANK OF AMERICA NT & SA
BANK OF CALIFORNIA
BANK OF CALIFORNIA N A
BANKERS TRUST COMPANY
BARBER-COLMAN COMPANY
BARBER-GREENE AMERICAS, INC.
BARBER-GREENE CO.
BARBER-GREENE OVERSEAS
BARNES DRILL TRADING CO
BARRELROS DIESEL
BARRETT-HAENTJENS & CO
BARRY-WEHMILLER EXP SALES CO
BATSON-COOK COMPANY
BAUER BROS CO
BAUER INTERNATIONAL INC
BAUSCH & LOMB INC
BEATRICE FOODS COMPANY
BEECH AIRCRAFT ACCEPTANCE CORP
BEECH AIRCRAFT CORP
BEHLEN MANUFACTURING CO.
BELL AEROSPACE CORPORATION
BELL HELICOPTER COMPANY
BELOIT CORP
BEN & SANDERS CORP.

BENDIX CORPORATION
BENJAMIN E WIESMAN & CO
BERGLUND INCORPORATED
BERWICK INTERNATIONAL COMPANY
BERWIND CORPORATION
BESSER CO.
BEVERAGE-AIR SALES CO.
BICKLEY FURNACES W H INC
BIF-UNIT OF GEN. SIGNAL CORP.
BIGELOW COMPANY
BIGELOW LIPTAK EXPORT CORP.
BIRD AND SONS INC
BIRD MACHINE COMPANY
BLACK CLAWSON COMPANY
BLACK SIVALLS & BRYSON-INC
BLACKSTONE CORPORATION
BLANCHARD MACHINE COMPANY
BLAW-KNOX COMPANY
BLAW-KNOX CONSTRUCTION EQUIP
BLAW-KNOX FOOD & CHEMICAL EQ
BLOUNT MARINE CORP
BLUE BIRD BODY COMPANY
BOBST CHAMPLAIN INC
BOEING COMPANY
BOISE CASCADE CORPORATION
BOLTON-EMERSON INC
BOOTHE COMPUTER CORPORATION
BORDEN INC
BORG WARNER CORPORATION
BORG-WARNER INTERNATL CORP
BOSTON SHOWCASE CO.
BOWEN TOOLS INC
BOWMAN AMERICAS CORPORATION
BRANSON INSTRUMENTS CO
BRANTLEY HELICOPTER CORP
BREISE & JOHNSTON FLYING SER.
BRIGGS & STRATTON CORP
BROCKWAY MOTOR TRUCKS
BROWN & SHARPE MANUFACTURING
BROWN & SITES COMPANY INC
BROWN INTERNATIONAL
BRUNSWICK CORPORATION
BUCYRUS-ERIE CO.
BUDD CO.
BUEHLER LTD
BURROUGHS CORP
BURROUGHS INTER AMERICA
BUTLER MANUFACTURING COMPANY
BUTTERWORTH AMERICAS CORP

BUTTERWORTH MFG. CO.
BYRON JACKSON PUMPS INC.
C & I GIRDLER INC
C H BABB COMPANY INC.
C TENNANT & SONS & COMPANY
CABOT CORP.
CABOT INTERAMERICA INC
CALHOUN FOUNDRY COMPANY INC
CALIFORNIA PELLET MILL COMPANY
CALLAHAN AMS MACHINE CO.
CALMAQUIP ENG. W. H. CORP.
CALMAQUIP ENGINEERING CORP
CALVERT WESTERN EXPLORATION CO
CANE MACHINERY&ENGINEERING COM
CAPITAL FOUNDRY DIVISION
CARAVAN TRADING CORP
CARD & CO INC
CARD SALES CORP.
CARDWELL MANUFACTURING CO
CARL STRUTZ & COMPANY
CARRIER INTERNATIONAL LTD.
CARRIER OVERSEAS CORPORATION
CATERPILLAR AMERICAS CO.
CATERPILLAR FAR EAST LTD.
CATERPILLAR OVERSEAS S.A.
CATERPILLAR TRACTOR CO
CDP COMPUTER DATA PROCESSORS
CENT NATL BANK OF CLEVELAND
CENTRAL NATIONAL CORPORATION
CENTRAL SCIENTIFIC CO
CENTRAL TRUST COMPANY
CENTRIFUGAL CASTG MACH CO
CENTURY ENGINEERING CO INC
CESSNA AIRCRAFT CO
CESSNA DISTRIBUTING COMPANY
CESSNA INTERNATL AIRCRAFT CORP
CESSNA INTN'L FINANCE CORP.
CHALLENGE COOK BROS INC
CHAMPION AIRCRAFT CORPORATION
CHAMPLAIN COMPANY INC
CHANDLER & PRICE CO.
CHARLES PETTET ASSN.
CHARLOTTE AIRCRAFT CORP
CHATTANOOGA TUFTERS SUPPLY CO
CHEMCO PHOTOENGRAVING CO.
CHEMCO PHOTOPRODUCTS CO.
CHEMETRON CORPORATION
CHEMICAL BANK AND TRUST CO.
CHEMICAL CLEANING INC

CHEMICAL INTERNATIONAL FINANCE
CHEMTEX FIBERS INC
CHEMTEX INC
CHERRY BURRELL CORP.
CHESAPEAKE INTERNATIONAL CORP
CHISHOLM BOYD & WHITE CO
CHOICE VEND
CHRYSLER CORP.
CHUNUSA CORPORATION OF AMERICA
CINCINNATI LATHE & TOOL CO
CINCINNATI MILLING & GRINDING
CITICORP LEASING INTERNATIONAL
CITIZENS & SOUTHERN INT'L BANK
CITIZENS AND SOUTHERN NAT'L BK
CLARK INTERNATIONAL MKT. S. A.
CLEAVER-BROOKS COMPANY
CMI CORP.
COASIN INC
COAST EXP CO FINEBILT MFG CO
COCKER MACH & FOUNDRY CO
COHERENT RADIATION
COLLINS RADIO COMPANY
COLMAN COCKER CO.
COLT INDUSTRIES INC
COLT-INTERNATIONAL
COLUMBIA EXPORTERS INC
COLUMBIA MACHINE INC
COLUMBIA RESEARCH CORP
COM & INDUST EXP-IMP AGENCY
COMBUSTION ENGINEERING INC
COMER MACHINERY CO. OF N.C.
COMINS PRODUCTS COMPANY
COMMUNICATION ASSOCIATES INC.
COMPANIA CONSTRUCTORA BECHTEL
CONCARE AIRCRAFT LEASING CORP
CONN BANK & TRUST CO.
CONN TECH CORP
CONSAN PACIFIC INC
CONSOLIDATED INTER-AMERICAN
CONSOLIDATED SERVICES INC
CONSTRUCTION MACHINERY CO
CONT ELECTRONICS MFG COMPANY
CONTINENTAL BANK INTERN'L N.Y.
CONTINENTAL CAN COMPANY INC
CONTINENTAL ELECTRONIC WHOLESA
CONTINENTAL ELECTRONICS MFG CO
CONTINENTAL EXPORT AGENCY
CONTINENTAL GIN CO
CONTINENTAL MINING SUPPLIES

CONTINENTAL ORE CORPORATION
CONTINENTAL TRADING CORP
CONTINENTAL-EMSCO CO.
CONTINENTAL-SHELLMAR INC
CONTINENTAL/MOSS GORDIN INC
CONTL ILL NATL BK & TR CO
CONTINENTAL BANK INTERNATIONAL
CONTROL DATA CORPORATION
COOK INDUSTRIES INC
COOPER BESSEMER CORP.
COOPER INDUSTRIES INC
CORN STATES HYBIRD SERVICE INC
CORNELIUS COMPANY
COSA EXPORT COMPANY INC
COSMO TRADING INC
COTTRELL CO.
COUNTY TRUST COMPANY
COYNE CYLINDER COMPANY
CRANE COMPANY DEMING DIVISION
CRANE MACHINERY & ENGINEERING
CRC-CROSE INTERNATIONAL INC
CRISPIN CO.
CROCKER CITIZENS NAT'L. BANK
CROCKER MACHINE & FOUNDRY CO
CROMPTON & KNOWLES CORP.
CROMPTON&KNOWLES INTERNATIONAL
CROWN CONTROLS CORP.
CROWN CORK & SEAL COMPANY INC
CUBIC CORPORATION
CUMMINS AMERICAS, INC.
CUMMINS DIESEL OF WISCONSIN IN
CUMMINS ENGINE COMPANY INC
CUMMINS SALES & SERVICE INC
CURLATOR CORPORATION
CURT G JOA INC
CUTLER-HAMMER INTERNATIONAL CA
D D DAVIS CONSTRUCTION CO INC
D H BALDWIN COMPANY
D PHILLIPP & COMPANY INC
DADE TRUCK SALES INC
DAKE CORPORATION
DALTON, COOPER & GATES CORP.
DAVID GESSNER COMPANY
DAVIS & FURBER MACHINE CO
DAVIS INTERNATIONAL
DAVY INTERNATIONAL INC.
DBI ENTERPRISES INC
DE LAVAL SEPARATOR CO
DEA PRODUCTS INC

DECCA SURVEY SYSTEMS INC
DEERE & COMPANY
DEKALB AGRICULTURAL ASSOCIATIO
DESPATCH OVEN COMPANY
DEVLIEG MACHINE COMPANY
DIDDE-GLASER, INC.
DIEBOLD INC.
DIGITAL RESOURCES CORP.
DIRECCION DE OBRAS HIDRAULICAS
DIVCO-WAYNE CORPORATION
DIXIE-NARCO INC
DO ALL COMPANY
DORR-OLIVER INC
DOSTAL & LOWEY COMPANY
DOUGHBOY INTER-AMERICA INC
DOW FURNACE COMPANY
DRAKE AMERICA CORP
DRAPER AMERICAS, INC.
DREIS&KRUMP WESTERN HEMISPHERE
DRESSER INDUSTRIES, INC.
DU-VAL INDUST FOR TRADE CORP
DUKANE CORPORATION
DUNBAR KAPPEL INC
DUNCAN EXPORT CORPORATION
DUNCAN INDUSTRIES INC
DUNCAN PARKING METER CORPORATI
DUNCAN-FOX AND CO INC
DYE OXYGEN CO.
DYNALECTRON CORPORATION
DYNAMICS CORPORATION
E D MAGNUS & ASSOCIATES INC
E H RESEARCH LABORATORIES
E HOLZER INC
E PHILIP CORPORATION
E V PRENTICE COMPANY INC
E W BLISS COMPANY
E. D. ETNYRE & CO.
E. HOLZER, INC
E.L CALDWELL & SONS INC & CALD
EARLING CORP.
EAST MOLINE METAL PRODUCTS CO
EATON, YALE & TOWNE, INC.
EDWARD G FROST ASSOCIATES
EDWARD RENNEBURG&SONS COMPANY
EDWARDS FUGE CORPORATION
EGAN MACHINERY CO.
EIMCO CORPORATION
EL PASO SAW & BELTING SUPPLY
ELDER-OILFIELD INC

ELDRED INTERNATIONAL
ELECTRIC FURNACE COMPANY
ELECTRIC MACHINERY MFG. COMP.
ELECTRONIC AUTOMATION SYSTEMS
ELGIN-LEACH INTERNATIONAL INC
ELLICOTT MACHINE CORPORATION
ELLIOT MANUFACTURING COMPANY
ELLIOT OVERSEAS CORP.
ELOX INC DIVISION OF COLT IND
ELTRA CORPORATION
ELWELL-PARKER ELECTRIC CO.
EMHART EXPORT COMPANY
EMI CORPORATION
EMI ENGINEERING MANAGEMENT
EMPIRE LAUNDRY EQUIP INC
EMPIRE MACHINERY CO.
ENGINEERING EQUIPMENT CO
ENGS MOTOR TRUCK CO.
ENSENAT & CO WARD BUS SALES CO
ENVIROTECH CORPORATION
ENVIROTECH SYSTEMS,INC.
EQUIPMENT EXPORT COMPANY
EQUIPMENT LIQUIDATORS INC
ERIE STRAVER CO
ERWIN-NEWMAN CO INC
EUCLID EQUIPMENT INC
EVERSMAN MANUFACTURING CO
EXACA ,INC.
EXCELLON INDUSTRIES
EXPORT CR WESTN HEMIS CORP
EXPORT CREDIT CORP.
EXPORT PROCUREMENT CORP
EXPORT-IMPORT INC
F & S INDUSTRIES INC
F C DAWSON ENGINEERING COMPANY
F E MYERS & BROS COMPANY
F W D INTERNATIONAL INC
F.J.STOKES CORP
F.RICHARD INTERNATIONAL CORP.
FAB-CON MACHINERY DEVELOPMENT
FAILING INDUSTRIES INC
FAIRBANKS MORSE INC
FAIRBANKS MORSE INTERNATL INC
FAIRCHILD CAMERA & INSTRUMENT
FAIRCHILD GRAPHIC EQUIPMENT CO
FAIRCHILD HILLER CORP
FAIRMONT RAILWAY MOTORS, INC.
FALK CORPORATION
FARREL CO.

FATE-ROOT-HEATH-COMPANY
FAUSTEL INC
FEMSA INC
FENCHURCH CORP.
FERGUSON INDUSTRIES INC
FERREX-JAHN, INC.
FIBER CONTROLS CORP
FIBER CONTROLS INTERN'L LTD.
FIELD EMISSION CORPORATION
FIFE CORP
FIR WISC NATL BK OF MILWAUKEE
FIRST NAT'L BK. OF MILWAUKEE
FIRST NATIONAL BANK OF MIAMI
FIRST NATIONAL CITY BANK
FIRST NATL BANK OF FORT WORTH
FIRST NATL BK OF CHICAGO
FIRST WESTERN BANK & TRUST CO.
FIRST WISCONSIN NATIONAL BANK
FISHER SCIENTIFIC COMPANY
FLEXWEIGHT CORP
FLORDIA EQUIP. DIST. OF DADE
FMC CORP. JOHN BEAN DIVISION
FMC CORPORATION INC
FMC CORPORATION MACHINERY PROD
FMC INTERNATIONAL
FMC PEERLESS PUMP HYDRODYNAMIC
FOOD DEVELOPMENT INTERNATIONAL
FOOD PROCESSG CONSULTANTS CO
FORAM CORP.
FORD METER BOX CO. INC.
FORD MOTOR COMPANY
FORD MOTOR COMPANY-OVERSEAS DI
FORD MOTOR CREDIT CORP
FOREL EQUIPMENT CORPORATION
FOREMOST FOODS COMPANY
FORENTA CORPORATION
FORT WORTH PETERBILT INC
FOSTER WHEELER CORPORATION
FOUNDRY ALLIED INTERNATIONAL
FOWLER PRODUCTS CO INC
FOWLER PRODUCTS CORPORATION
FR OIL WESTN HEMIS TRADG CORP
FRANK W EGAN & COMPANY
FRED E COUPER INC
FRED S CARVER INC
FREDRO CORPORATION
FRENCH OIL MACH CO
FRENCH OIL WESTERN HEMISPHERE
FRICK CO

FRICK COMPANY
FRIDEN AMERICANA INC
FRIDEN DIVISION SINGER COMPANY
FRISCH CORPORATION
FRUEHAUF CORPORATION
FRYE MANUFACTURING COMPANY
FULLER COMPANY
FULTON IRON WORKS CO
FWD INTERNATIONAL INC
FWD WAGNER INC
G & W H CORSON INC
G A BRAUN INC
G R S TRADING CORPORATION
G T SCHJELDAHL COMPANY
GALION AMERICAS CORPORATION
GALION IRON WORKS & MFG CO
GARDNER-DENVER COMPANY
GARY SAFE COMPANY
GASTON COUNTY DYEING MACH CO
GATES LEARJET CORPORATION
GATES RADIO CO
GATX BULK CARRIER NUMBER THREE
GAUMARD SCIENTIFIC MODELS INC
GEN BAKERS SUPPLY COMPANY
GEN TEL & ELECTRON EXPORT CORP
GEN TELEPHONE & ELECTRONICS
GENDER MACHINE WORKS INC
GENERAL ELECTRIC COMPANY
GENERAL GLASS EQUIPMENT CO
GENERAL GLASS INTERNATIONAL IN
GENERAL LEARNING CORPORATION
GENERAL MOTORS ACCEPTANCE CORP
GENERAL MOTORS CORPORATION
GENERAL MOTORS INTERAMERICA CO
GENERAL MOTORS OVERSEAS DIST.
GENERAL RADIO COMPANY INC
GENERAL RAILWAY SIGNAL COMPANY
GENERAL TELEPHONE & ELECTRONIC
GENERAL TIRE INTERNATIONAL CO
GEO H MCFADDEN & BRO INC
GEO J MEYER MANUFACTURING CO
GEO SPACE CORPORATION
GEORGE E FAILING COMPANY
GEORGE ENGINE COMPANY INC
GEORGE HANTSCHO CO INC
GEORGE W THOMAS & COMPANY
GEORGIA PACIFIC CORPORATION
GETZ BROS & CO INC
GIDDINGS & LEWIS INC

GILLESPIE & CO.OF NEW YORK INC
GILLESPIE & COMPANY
GLADE & GROVE SUPPLY CO INC
GLAUBINGER MACHINERY COMPANY
GLEASON WORKS
GLOBE TOOL & ENGINEERING CO
GLOBE-UNION INC
GLOUCESTER ENGINEERING CO INC
GORDON JOHNSON INTERNATIONAL
GORMAN-RUPP CO.
GORTON MACHINE CORP
GOSS COMPANY
GOULDS PUMPS, INC.
GOULDS PUMPS INTERNATL INC
GRACO AMERICAS-INC
GRAHAM MACHINE TOOL CORP
GRANGER ASSOCIATES
GRANT INDUSTRIES INC
GRAPHIC EXPORT CORPORATION
GREAT DANE MIAMI INC
GREAT DANE TRAILERS INC
GROCERS EQUIPMENT CO
GROVE MANUFACTURING COMPANY
GRUENDLER CRUSHER & PULVERIZER
GRUMAN AIRCRAFT ENGINEERING CO
GUADALUPE INTERNATIONAL INC.
GUNDERLIN, LTD.
H G WEBER
H H ARNOLD CO INC
H KEMPER COTTON COMPANY
H KEMPNER COTTON COMPANY
H O RONDEAU INC
H. D. SHELDON & CO., INC.
HALTER MARINE SERVICES, INC.
HAMILTON TOOL COMPANY
HAMMERMILLS INC
HANDALSONS CORPORATION
HANNA ENTERPRISES
HARBISON-WALKER REFRACTORIES
HARDWICKE-ETTER COMPANY
HARNISCHFEGER CORP
HARRIS-INTERTYPE CORPORATION
HARRIS-SEYBOLD COMPANY
HARTFORD NATIONAL BANK & TRUST
HARTFORD SPECIAL MACHINERY CO
HASKON INC
HAWTHORNE COMMERCIAL CORPORATI
HAWTHORNE MACHINERY COMPANY
HAYES ALBION CORP.

HAYSSEN EXPORT COMPANY
HAYSSEN MANUFACTURING COMPANY
HEALD MACHINE COMPANY
HEATH COMPANY
HEIL COMPANY
HEISDORF & NELSON FARMS INC
HELICOPTER SALES INC
HELIO AIRCRAFT CORP.
HENRY R. JAHN AND SON INC.
HENRY VOGT MACHINE CO
HEWITT-ROBINS INC
HEWLETT PACKARD COMPANY
HEWLETT-PACKARD INTERAMERICAS
HICKOK ELECTRICAL INSTRUMENTS
HILL-WHISNANT MACHINERY INC
HIRE PURCHASE
HOBART BROTHERS COMPANY
HOBART MANUFACTURING COMPANY
HOHENBERG BROS CO.
HONEYWELL INC
HOPKINS/SMITH INC
HORVATH TRADING COMPANY
HOUDAILLE INDUSTRIES INC
HOUDAILLE INTERNATIONAL
HOWE-RICHARDSON SCALE CO
HOWELL ENG. CORP.
HUBER CORPORATION
HUBER-AMERICAN INC
HUGHES TOOL COMPANY
HUMM INTERNATIONAL INC
HUNT FOODS AND INDUSTRIES INC
HUNT-WESSON FOODS EXPORT CORP
HUNTER ENGINEERING
HUSSMAN REFRIGERATOR COMPANY
HUSSMANN REFRIGERATION INC
HYDRAULIC RESEARCH & MANUFACTU
HYSTER COMPANY
I.R. WESTERN HEMISPHERE CORPOR
IMPROVED MACHINERY INC.
INDUCTOTHERM WESTERN LTD
INDUSTRIA AMERICANA & CO.
INDUSTRIAL PROCESS ENGINEERS
INDUSTRIAL PRODUCTS OF AMERICA
INDUSTRIANA AMERICANA & CO INC
INGERSOL-RAND WESTERN HEMISPHE
INGERSOLL-RAND COMPANY
INGERSOLL-RAND W.H.TRADE CORP.
INSLEY MANUFACTURING CORPORATI
INSTRON CORPORATION

INSTRUCTOMATIC-INCORPORATED
INT'L TELEPHONE & TELEGRAPH
INT'L WILCOX ELECTRIC INC
INTA-ROTO, INC.
INTER AMERICAN TRANSPORT EQUIP
INTER. COMMODITIES EXPORT CORP
INTER. HARVESTER EXPORT CO.
INTER. PHOTON CORP.
INTER-AMER TRANSPORT EQUIP CO
INTER-AMERICAN ASSOC INC
INTER-AMERICAN BUS CO INC
INTER-AMERICAN BUSINESS CO INC
INTER-AMERICAN TRANS EQUIP CO
INTER-AMERICAN TRANSPORT
INTERCONTINENTAL CREDIT CORP
INTERNATIONAL BASIC ECONOMY CO
INTERNATIONAL CAPITAL CORP
INTERNATIONAL COOPERATIVE PETR
INTERNATIONAL DAIRY ENGINEERIN
INTERNATIONAL HARVESTER CO.
INTERNATIONAL MARKETS INC
INTERNATIONAL MICROELECTRONICS
INTERNATIONAL PHOTOS CORP
INTERNATIONAL TRADE FACTORS
INTERNATIONAL WILCOX ELECTRIC
INTERNATL ELEC MFG CONSULTANTS
INTERNATL EQUIPMENT COMPANY
INTERNATL HARVESTER EXPORT CO
INTERPACK INC
INTERPACK INCORPORATED
INTERSTATE MACHINERY CO
INTERTEX INTERNATIONAL INC
INTERTYPE COMPANY
INTRADE LTD
INTRAFINA CORP
IOWA MANUFACTURING COMPANY
IPT CO INC
IRRIG & INDUST DEVELOP CORP
ITT CARIBBEAN MFG INC
ITT EXPORT CORPORATION
ITT TELECOMMUNICATIONS
J & L ENGINEERING CO INC
J & M MACHINERY CO INC
J D MARSHALL INTERNATIONAL INC
J F PRITCHARD & COMPANY
J. D. MARSHALL INTERNATIONAL
J. I. CASE CO.
J&L ENGINEERING COMPANY INC
J-T EQUIPMENT CO INC

JACUZZI EXPORT SALES CORP.
JAFFREY-GALION AMERICAS CORP
JAMES B JENSEN & COMPANY
JAMES DOLE ENGINEERING COMPANY
JAMES LAWRENCE AND COMPANY
JAMPRO ANTENNA CO INC
JAMPRO SALES, INC.
JARRELL-ASH COMPANY
JEEP INTERNATIONAL CORPORATION
JEFFREY MANUFACTURING COMPANY
JERROLD ELECTRONICS INC
JETTY-FAGG INC
JEWETT REFRIGERATOR CO. INC.
JL ENGINEERING CO INC
JOBBERS EQUIPMENT WAREHOUSE
JOHN BEAN EASTERN DIV.
JOHN D HOLLINGSWORTH ON WHEELS
JOHN DEERE INTERCONTNENTAL LTD
JOHN DEERE SA
JOHN W STANG INTERNATL INC
JOHN WOOD INTERNATIONAL CORP
JOHNSON PUMP CO.
JOHNSTON BROTHERS INC
JOHNSTON PUMP CO.
JONAS AIRCRAFT & ARMS CO INC
JONAS INTERNATIONAL
JONES&LAMSON
JOY MANUFACTURING CO
JOZOVICH MFG CO INC
K CHELLARAM & SONS INC N Y
KAISER ALUM INTERNATL INC
KAISER ALUMINUM & CHEMICAL COR
KAISER JEEP INTL CORP
KANE CARIBBEAN INC
KARTRIDG PAK CO
KATO ENGINEERING COMPANY INC
KEARNEY & TRECKER CORPORATION
KELVINATOR INTERNATIONAL CORP
KEN AIR, INC.
KEN BAKER & ASSOCIATES
KENNEDY VAN SAUN CORPORATION
KENWORTH MOTOR TRUCK CO.
KEYES FIBRE CO
KIDDER PRESS COMPANY INC
KIMBER FARMS INC
KIMBERLY-CLARK CORPORATION
KIMWOOD CORP.
KINGSLEY DRYER CORPORATION
KLIEGL BROS UNIV ELEC STAGE LI

KNIGHT MFG & SUPPLY CO
KOEHRING CO.
KOEHRING OVERSEAS CORP S.A.
KOHLER CO
KOHLER OF CANADA LTD
KOPPERS CO.,INC.
KUHL INTERCONTINENTAL INC
KUHL INTERNATIONAL INC
KURZ AND ROOT CO, INC.
L & B WELDING EQUIPMENT INC
L & M LEASING COMPANY
L A MOSS INC
L. S. STARRETT CO.
LA SALLE MACHINE TOOL INC
LANDIS MACHINE COMPANY
LANGSTON COMPANY
LASER ALIGNMENT INC
LATIN AMERICA DISTRIBUTORS
LATINI MACHINE CO INC.
LAWSON ENTERPRISES INC
LAYNE & BOWLER PUMP CO
LE MARE INTERNATIONAL INC.
LEA INDUSTRIES INC
LEAR JET CORPORATION
LEAR JET INDUSTRIES INC
LECTROMELT CORPORATION
LEE WILSON ENGINEERING CO INC
LEESONA CORP.
LEFIELL COMPANY
LEHARA CORPORATION
LEMBO CORPORATION
LEMBO MACHINE WORKS INC
LEONARD CONSTRUCTION CO
LETOURNEAU-WESTINGHOUSE CO
LEVEDAG & COMPANY INC
LEWIS CARD & CO INC
LEWIS REFRIGERATION CO
LEWIS REFRIGERATION CO-CALIF
LIBERTY MACHINE CO INC
LIBYAN OILFIELD SERVICES
LINK-BELT CO
LITTLEFORD BROTHERS INC
LITTON INDUSTRIES INC.
LITTON MEDICAL PRODUCTS INC
LLOYD SIMMONS INC
LOCKHEED WESTERN EXPORT CO
LOHMANN INTERNATIONAL LTD
LOMBARD INDUSTRIES INC
LONGWOOD MACHINE WORKS INC

LOOPCO INDUSTRIES INC
LOSADA TRUCK & EQUIPMENT CO
LOUIS DEMARKUS CORP
LUBBOCK MFG CO
LUFKIN INDUSTRIES INC
LUMMUS COTTON GIN CO
LYNCH CORPORATION
M & M WORLD MARKETING, INC.
M NEUMUNZ & SONS INC
M T S SYSTEMS CORP
M-G-D GRAPHIC SYSTEMS
MACHINE AFFILIATES INC
MACHINERY & EQUIPMENT CO INC
MACK FINANCIAL CORPORATION
MACK TRUCKS INC
MACK TRUCKS WESTERN HEMISPHERE
MADAGASCAR AGENCIES INC
MAGNA-TECH ELECTRONIC CO INC
MAHAFFY & HARDER ENGINEERING
MANDREL INDUSTRIES INC.
MANUEL J DOPICO
MANUFACTURERS NATL BK DETROIT
MARBELITE COMPANY INC
MAREMONT CORP
MARINE CONSTRUCTION & DESIGN
MARION POWER SHOVEL CO INC
MARISON COMPANY
MARK PRODUCTS INC.
MARLEY CO
MARSHALL & ILSLEY BANK
MARTIN AVIATION INC
MASSEY-FERGUSON INC
MATHEWS CO
MAUL BROTHERS INCORPORATED
MAYER REFRIGERATING ENG. INC.
MAYFLOWER CO.
MCCABE-POWERS BODY CO.
MCGRAW EDISON CO
MCINTOCH & CO
MCKAY COMPANY
MCKAY MACHINE COMPANY
MECHANICAL EQUIPMENT CO INC
MEDALIST INDUSTRIES
MELPAR INC
MEMOREX CORP
MERCATOR CORP
MESTRE EQUIPMENT CO
MIAMI AVIATION CORPORATION
MIAMI AVIATION SERVICE INC

MICHIGAN TOOL COMPANY
MIDWEST EXPORTERS
MIEHLE-GOSS-DEXTER AMERICAS CO
MILLER ELECTRIC MFG. CO.
MILTENBERG & SAMTON INC.
MINE & SMELTER SUPPLY CO.
MINSTER MACHINE CO
MIRA-PAK INC
MITSUBISHI INTERNATIONAL CORP
MITSUI BANK
MIX-MILL INC
MOORE DRY KILN COMPANY
MOREHOUSE INTERNATL
MORGAN CONST. CO.
MORGAN EQUIPMENT COMPANY
MORGAN GUARANTY TRUST COMPANY
MORGAN'S INC
MORRISON MACHINE CO INC
MOSS-COE INTERNATIONAL CORP
MOTOROLA COMMUNICATIONS INTL
MULCO PRODUCTS INC
MULTI-NATIONAL CORPORATION
MULTL ELECTRIC MFG INC
MURRAY CARVER DIV.
MURRAY COMPANY OF TEXAS INC
MYERS INDUSTRIES INC.
MYERSON TOOTH CORPORATION
N AMER UTILITY CONSTRUCTN CORP
NAPCO INDUSTRIES INC
NATIONAL ACME CO
NATIONAL BANK OF DETROIT
NATIONAL CASH REGISTER
NATIONAL DRYING MACHINERY CO
NATIONAL ENGINEERING CO
NATIONAL FILTER CORPORATION
NATIONAL FROST PROTECTION
NATIONAL MACHINERY EXCHANGE
NATIONAL PRODUCTIVE MACHINES
NAUTEC CORP BERTRAM YACHT DIV
NAVION AIRCRAFT CORP
NEVTEC CORPORATION
NEW ERA MANUFACTURING CO
NFC INDUSTRIES
NOLIN MANUFACTURING COMPANY
NOMURA AMERICA CORPORATION
NORDBERG MANUFACTURING CO
NORDBERG MANUFACTURING COMPANY
NORTH AMERICAN AFRICAN CORP
NORTH AMERICAN MACHINERY CORP

NORTH AMERICAN ROCKWELL CORP
NORTHERN TRUST COMPANY
NORTHWEST ENGINEERING COMPANY
NORTHWEST ORIENT AIRLINES INC
NORTON INTERNATIONAL INC
NRM CORPORATION
NUIR INTERNATL INC
NUIR OF THE AMERICAS, INC.
O PHILIPP & COMPANY INC
O'BRIEN MACHINERY COMPANY
O'BRIEN MFG. CO.
OHIO MEDICAL PRODUCTS
OLIVER CORPORATION
OLIVER MACHINERY CO.
OPHIL INTERNATIONAL CORP
OPPENHEIMER INTERCONT'L CORP
ORCHARD CORP OF AMERICA
ORE & CHEMICAL CORP.
OREGON TECHNICAL PRODUCTS
ORIENTAL EXPORTERS INC
ORTON CRANE COMPANY
OSCAR KRENZ INC
OSHKOSH FILTER & SOFTNER CO
OSHKOSH MOTOR TRUCK INC
OSMOSE WOOD PRESERVING COMPANY
OVERSEAS CREDIT CORPORATION
OVERSEAS INVESTORS
OVERTON MACHINE CO.
OWENS-ILLINOIS INC
OXBERRY CORPORATION
P P G INDUSTRIES INC
PACIFIC CAR & FOUNDRY CO
PACIFIC PRESS & SHEAR CORP
PACIFIC ROLLER DIE COMPANY
PACIFIC VALLEY FARMS INC
PACKAGE MACHINERY CO.
PACKAGING INDUSTRIES INC
PAGE & PAGE
PAGE AIRWAYS INC
PAGE COMMUNICATIONS ENGINEERS
PAGE LEASING CORPORATION
PAKO CORPORATION
PALA MESA EQUIPMENT CO
PAMCO INC
PAN AM DISTRIBUTORS
PAN AM DISTRIBUTORS INC
PAN AMER TRADE DEVELOP CORP
PAN-AM DISTRIBUTORS INC
PANAMERICAN CONSTRUCTION-ENGR

PANCOAST INTERNATIONAL CORP
PANELFAB RIVADAVIA DE INDUSTRI
PAPER CONVERTING MACHINE CO
PARK OHIO INDUSTRIES
PARKER HANNIFIN CORP
PARKS-CRAMER CO
PARSONS & WHITTEMORE INTERAMER
PASCAL KNITWEAR CO INC
PATERSON MACHINE CO INC
PATTERSON-KELLY CO INC
PAUL E MOSS & CO INC
PEARCE & COMPANY
PEARL EQUIPMENT COMPANY INC
PEARLSON ENGINEERING COMPANY
PEERLESS PUMP
PELLERIN MILNOR CORP.
PEMAR INTERNATIONAL INC.
PEMAR INTERNATIONAL W H INC
PENGO HYDRA PULL CORP.
PENNSALT CHEMICALS CORPORATION
PENNSYLVANIA ENGINEERING CORPO
PENNWALT CORPORATION
PERRY INDUSTRIES INC
PERSAM CORP
PESO CORPORATION
PET INCORPORATED
PETERBILT MOTORS COMPANY
PETERS MACHINERY CO
PETERSON MACH TOOL CO
PETTIBONE CORP
PETTIBONE CORP INTER. DIV.
PETTIBONE MERCURY CORP.
PETTIBONE MULLIKEN CORP
PFAUDLER INTER-AMERICAN CORP
PHILCO CORPORATION
PICKER INTERNATIONAL CORP
PILLSBURY COMPANY
PINE PLY INC
PINES ENGINEERING COMPANY INC
PIPER AIRCRAFT CORP
PIPER CONVERTING MACHINE CORPO
PLAINS COTTON COOP ASSOCIATION
PLICOFLEX INC
PM INTERNATIONAL
POLARMATIC CORP
POLAROID CORP
POLYMER INTERNATIONAL CORP
POOR & COMPANY INC
POPPER & SONS

PORTEC INC
POSSIS MACHINE CORPORATION
POTT INDUSTRIES INC
POULTRY HEALTH SERV WEST HEMIS
POULTRY HEALTH SERVICE
POWER CURVE CONVEYOR COMPANY
POWERS CHEMCO INC
PPG INDUSTRIES INC
PRESSED STEEL TANK CO INC
PRICE Y CIA
PROCESS MACHINERY ASSOCIATES
PROCESSING MACHINERY & SUPPLY
PROCTOR & SCHWARTZ INC
PROTEC INCORPORATED
PRUDENTIAL INTERNATIONAL CORP
PULLMAN INC.
PUMPS INTERNATIONAL INC
QONAAR CORP.
R A HANSON COMPANY INC
R C A CORPORATION
R F COMMUNICATIONS INC
R HOE & CO INC
R K LEBLOND MACHINE TOOL CO
R.P. PERRIN FOR ROBERTS CO.
RADIO CORPORATION OF AMERICA
RAILWAY TIE CORP OF AMERICA
RALPH D MOYER & ASSOCIATES SA
RAY OIL BURNER COMPANY
RAYCO INC
RAYTHEON CO.
RAYTHEON DATA SYSTEMS COMPANY
RAYTHEON SERVICE COMPANY
READ STEEL PRODUCTS
REED-JOSEPH COMPANY INC
REFRIGERATION ENGINEERING CO
REINHOLD A AUERBACH
RELIABLE MACHINE WORKS INC
RELIABLE RUBBER-PLASTIC MACH
REPUBLIC CONST AND EQUIP CO
REPUBLIC TEXTILE EQUIPMENT CO
RESEARCH-COTTRELL INC
RESISTANCE WELDER CORP
REX CHAINBELT INC.
REX CHEMICAL
REXARC INC
REYNOLDS CONSTRUCTION COMPANY
REYNOLDS INTERNATIONAL INC
REYNOLDS METALS COMPANY
RICHARDS INTERNATIONAL LTD

RILEY STOKER CORP.
RITTER CO.,DIV.OF SYBRON CORP
RITTER-PFAUDLER CORP
ROBBINS INCUBATOR CO
ROBERTS & PORTER INC
ROBERTS AMERICAS INC
ROCKE INTERNATIONAL CORP
ROCKWELL MFG CO
ROCKWELL-STANDARD CORPORATION
RODGERS HYDRAULIC INC
RODNEY HUNT MACHINE COMPANY
ROGERS EXPLORATIONS INC
ROME AMERICAS PLOW COMPANY
ROME INDUSTRIES
ROME OVERSEAS PLOW COMPANY
ROME PLOW CO.
ROSS PORTA PLAN INC DBA ROSS C
ROUND RAIN INC
ROWE INTERNATIONAL INC
ROWE MACHINERY & MANUFACTURING
ROY M MOFFITT COMPANY
ROYAL INDUSTRIES
ROZEL PACKING CORPORATION
RUSSELL-BURDSALL & WARD BOLT
S&S CORRUGATED PAPER MACH CO
SACO-LOWELL INTER-AMERICAS
SAMINCORP EXPORT CO INC
SANDERS COMPANY INC
SANDERSON CYCLONE DRILL COMPAN
SANDY HILL CORP.
SCHAFER INTERNATIONAL
SCHLESEX CORP
SCHRIBER COMPANY
SCHWABACH-KEMPNER-PERUTZ INC
SCOTT & WILLIAMS INC
SEAMAN CORPORATION
SECURITY PACIFIC NATL BANK
SEEBURG CORP
SELECT FABRICS CORPORATION
SERVIS EQUIPMENT CO
SHERIDAN COMPANY
SHERMAN CAR WASH EQUIPMENT CO
SILLCOX ASSOCIATES INC
SILLCOX REFRIGERATION CORP
SIMLO COMPANY
SIMPSON TIMBER CO
SIN TUNG HING CORPORATION
SINGER CO.
SINGER PRODUCTS COMPANY INC

SINGER SUPREME CO
SINGER-GENERAL PRECISION-INC
SKAGIT CORPORATION
SKOKIE INTERNATIONAL INC.
SKYTOP RIG COMPANY
SMITH BELL & CO INC
SMITH KIRKPATRICK & COMPANY
SMITH-MEEKER ENGINEERING CO
SOCIETY NATL BANK OF CLEVELAND
SOILTEST INC
SOULE STEEL COMPANY
SOUTH AMERICA MINERALS & MERC
SOUTH BEND LATHE INC
SOUTHWORTH MACHINE COMPANY
SPARTA ELECTRONIC CORP
SPECIAL MACHINE & ENGINEERING
SPECO INC
SPERRY RAND CORP NEW HOL DIV
SPERRY RAND CORP UNIVAC DIV
SPERRY RAND CORPORATION
SPROUT WALDRON & CO INC
SQUIRT COMPANY
ST MARY IRON WORKS INC
ST REGIS PULP & PAPER CORP
STA-HI AMERICAS INC
STA-HI CORPORATION
STANDARD CAP & SEAL EXPORT COR
STANDARD ELECTRIC TIME CORP.
STANDARD STEEL CORP
STANSTEEL CORP.
STAPLING MACHINES CO
STAR PARTS COMPANY
STEPHENS-ADAMSON DIV.
STERLING EXTRUDER CORP
STERLING INTERNATIONAL
STEVENS CORPORATION
STEWART & STEVENSON SERVICES
STEWART BOLLING & COMPANY
STIEFEL BROTHERS INTERNATL INC
STOKES EQUIP.DIV.PENNWALT CORP
STOLLE CORP.
STRAN-STEEL CORPORATION
STRAUB MANUFACTURING CO.
STRICK CORPORATION
STRYCO MANUFACTURING CO
STUDEBAKER CORP INTERNATL DIV
SUCESORES DE ABARCA INC
SUMITOMO SHOJI AMERICA INC
SUMITOMO SHOJI NEW YORK INC

SUMMIT INDUSTRIAL CORP
SUMMIT RADIO CORPORATION
SUN CHEMICAL INTER-AMERICA INC
SUNBEAM EQUIP. CORP.
SUNDSTRAND CORPORATION
SUNSET EQUIPMENT COMPANY
SUPERIOR COACH CORPORATION
SUPERIOR FABRICATORS INC
SUREX TRADING COMPANY
SUTTER PRODUCTS COMPANY
SUTTON ENGINEERING COMPANY
SWEARINGEN AIRCRAFT
SWISHER & SONS MACHINERY
SYBRON CORPORATION
SYNCRO MACHINE COMPANY
T D WILLIAMSON
T L SMITH COMPANY
TALLER AND COOPER INC
TAMPER, INC.
TAMPO MFG. CO. INC.
TAYLOR-WILSON MFG CO
TECHINT INC
TECHNATION INTERNATIONAL-INC
TECHNICAL MATERIAL CORP
TECHNICON CORPORATION
TEKTRONIX INC
TELEDYNE INC
TEN-TEX COMPANY
TEN-TEX CORPORATION
TEXAS INSTRUMENTS INC
TEXAS KENWORTH COMPANY
TEXAS RICE COMPANY
TEXEMS INC
TEXTILE MACHINE WORKS
TEXTILE MARKING MACHINE CO INC
TEXTRON INC
TEXTRON SPRAGUE LPG DIVISION
THEW SHOVEL COMPANY
THIOKOL CHEMICAL CORP
THOMAS CONVEYOR COMPANY
THOMAS L GREEN & COMPANY INC
TIEGEL MANUFACTURING CO INC
TINUS OLSEN TESTING MACHINE CO
TIPPINS MACHINERY COMPANY INC
TMW DIVISION OF N AMERICAN
TOKHEIM CORPORATION
TORIN CORP.
TORO MANUFACTURING CORPORATION
TORRINGTON CO.

TOWER MANUFACTURING CO
TOWMOTOR CORPORATION
TOWNSEND ENGINEERING COMPANY
TOWNSEND ENGINEERING SALES INC
TOYO COTTON COMPANY
TRANE CORPORATION
TRANE WESTERN HEMISPHERE INC
TRANSMUNDO COMPANY INC
TRANSPACIFIC EQUIPMENT CORP
TRIANGLE PACKAGE MACHINERY CO
TRINITY INDUSTRIES INC
TROPEX GRAPHIC INC
TRUCK EQUIPMENT CO OF GEORGIA
TRUE SALES CO INC
TRUE WESTERN INCORPORATED
TUFTO CORPORATION
TULLY INTERNATIONAL, INC.
TURBO MACHINE CO
TYLER CORPORATE INDUSTRIES
U S BURKE MACHINE TOOL COMPANY
U S ELECTRICAL MOTORS
U S INDUST INC SERVICE DEPT
U S INDUSTRIES INC
U S INDUSTRIES WORLDWIDE CORPO
U S M CORPORATION
U S MACHINERY COMPANY INC
U S STEEL INTERNATIONAL-NY,INC
U S TEXTILE MACH COMPANY
U. S. I. CAPITAL & LEASING COR
UNION CARBIDE CORPORATION
UNION CARBIDE INTER-AMERICA
UNION SPECIAL MACHINE CO
UNION TANK CAR COMPANY
UNIT RIG & EQUIPMENT CO
UNITED AIRCRAFT INTERNATIONAL
UNITED CALIFORNIA BANK
UNITED CALIFORNIA BK INTERNATL
UNITED CAN COMPANY
UNITED ENGNEERING & FOUNDRY CO
UNITED SHOE MACH CO DE PAN-AME
UNITED STATES WALLBOARD MACHIN
UNITRA INC
UNIVERSAL AMERICAN CORPORATION
UNIVERSAL ENGINEERING CORP
UNIVERSAL PACKG MACH SALES COR
UNIVERSAL PRINTING EQUIPMENT
UTIL INTERNATIONAL INC
UTILITY EQUIP CO. INTER.
V&O PRESS, INC.

VALLEY NAT'L. BK.
VALLEY NATL BANK OF ARIZONA
VAN DORN COMPANY
VAN NORMAN MACHINE CO.
VANCE OVERSEAS CORPORATION
VANDERBURGH & COMPANY INC
VAPOR CORP
VAPOR INTERNATIONAL
VARIAN ASSOCIATES
VARIAN INTER-AMERICA CORP
VENDO COMPANY
VERMONT MARBLE CO.
VERTI CAST INC
VIBRO-PLUS PRODUCTS INC
VIC MANUFACTURING CO
VILLA SALES INC
VILTER INTERNATIONAL INC
VILTER MFG. CORP.
VIRGINIA NATIONAL BANK
VULCAN IRON WORKS INC
W F H SCHULTZ INC
W R AMES CO
W. A. WHITNEY INTERNATIONAL
WABASH POWER EQUIPMENT COMPANY
WAGNER ELECTRIC CORPORATION
WAH CHANG INTERNATIONAL CORP
WALSEN CONSOLIDATED MERCANTILE
WALTER KIDDE&CO INC
WANSKUCK COMPANY
WARD LA FRANCE INTERNATL INC
WARNER & SWASEY COMPANY
WARSAW LUMBER & TRADING CO
WAUKESHA MOTOR CO
WAUKESHA MOTOR WESTERN LIMITED
WAYNE CORP
WAYNE INTER-AMERICAN CORP
WAYNE INTERNATIONAL DIV.
WAYNE MANUFACTURING COMPANY
WEAN ENGINEERING COMPANY
WEAN INDUSTRIES INC
WEBER SHOWCASE & FIXTURE
WEHRING-GOSS EQUIP.
WEIL BROTHERS COTTON INC
WELLINGTON OVERSEAS CORP.
WELLS FARGO BANK N A
WELTY-WAY PRODUCTS INC
WERNER LEHARA INTERNATIONAL
WEST AFRICAN SERVICES INC.
WEST POINT FOUNDRY & MACH CO

WESTERN GEAR CORP
WESTERN LAND ROLLER INTERNATIO
WESTERN SERVICE & SUPPLY CO
WESTERN STATES MACHINE CO.
WESTINGHOUSE AIR BRAKE COMPANY
WESTINGHOUSE ELECTRIC CORP.
WESTINGHOUSE ELECTRIC INT'L CO
WESTON EQUIP & COMMER CORP
WESTRAD CORPORATION
WEXCO INC
WEXCO INTERNATIONAL CORP.
WHEELABRATOR CORP.
WHITE CONSOLIDATED IND.
WHITE MACHINE CO INC
WHITE MOTOR CORPORATION
WHITE MOTOR INTERNATIONAL S A
WHITIN INTERNATIONAL LTD.
WHITING CORP
WHITTAKER LEASING CORPORATION
WICKES CORP.
WILDMAN JACQUARD CO
WILLIAM C DARDEN
WILLIAM P STEIN COMPANY
WILLIAMS & DAVIS BOILER & WELD
WILLIAMSBURGH IRRIGATION INC
WILSON MANUFACTURING CO.
WINKEL MACHINE CO INC
WINTERS NATL BANK & TRUST CO
WIRE MACHINERY INC.
WISDOM EQUIPMENT SALES INC
WISDOM RUBBER INDUSTRIES INC
WITTE ENGINE CORP.
WITTEMANN CO. INC.
WOLFF SALES ENGINEERING CO
WOODMAN COMPANY INC.
WOODWARD & DICKERSON INC
WORLD AIRWAYS INC
WORLD EXPORT MACHINE CO INC
WORLD TRADE DEVELOPMENT CORP
WORTHINGTON COMPRESSOR DIV.
WORTHINGTON CORP
WORTHINGTON PUMP INTERNATIONAL
WORTHINGTON TURBINE INT. INC.
WURLITZER CO
WYATT MANUFACTURING CO
YALE AND TOWNE INC
YODER COMPANY
YORK INTERNATIONAL-BORG WARNER
YORK-SHIPLEY INC.

YOUNGSTOWN SHEET & TUBE CO
YOUNGSTOWN WELDING & ENGINEER
ZIEGLER INTERNATIONAL
ZIEGLER STEEL SERVICE CORPORAT

APPENDIX C

EXPORT-IMPORT BANK OF THE UNITED STATES
Commercial Jet Aircraft Loan Summary through 12-31-70
($ thousands)

Fiscal Year	Total Cost	Amount financed directly by Eximbank	Percent of total cost financed directly by Eximbank	Number of Jet Aircraf Financed
1957 thru 1959	$ 159,170	$ 76,876	48.3	25
1960	150,299	87,214	58.0	18
1961	140,170	93,835	66.9	21
1962	5,365	2,921	54.4	1
1963	-	(10,000) 1/	-	-
1964	46,191	28,966	62.7	8
1965	-	(12,886) 1/	-	-
1966	118,887	86,574	72.8	14
1967	1,164,664	701,055	60.2	118
1968	787,978	326,940	41.5	85
1969	450,979	189,693	42.1	55
1970	1,748,238	588,459	33.7	143
Sub-total	4,771,941	2,159,647		488
1971 (First Half)	599,025	194,661	32.5	57
Cumulative to 12-31-70	$5,370,966	$2,354,308		545

1/ Prior fiscal year authorizations transferred to the guarantee program.

APPENDIX D

...BANK WSH
...116 C WU TELTEX WSHCDE7(1655)

...GOLDMAN SACHS N.Y.

...LTEX PD NEWYORK NEWYORK 5/24/71

...HENRY HEFFRON
...PORT IMPORT BANK
811 VERMONT AVENUE N W
WASHINGTON D C 20571

YOU HAVE ASKED MY VIEWS ON THE ENACTMENT OF PENDING B...
H R 5846 EXEMPTING OPERATIONS OF EXPORT IMPORT BANK FROM
THREATENED IMMINENT CONSTRAINT OF BUDGETARY COMPUTATIONS
IN MY OPINION A FAILURE TO PASS THIS BILL WOULD RISK A

SERIGUS DISRUPTION OF RECENT MOVEMENT TOWARDS A HEALTHY TRADE
SURPLUS INABILITY OF BANK IN THE FUTUR TO ASSURE ADEQUATE
EXPORT CREDIT ON COMPETITIVE TERMS WOULD DAMAGE NATIONAL
INTEREST AND THE DOLLARS ROLE IN THE INTERNATIONAL MONETARY
SYSTEM PUBLIC AND PRIVATE EXPRESSIONS FROM MANY QUARTERS
AND THE SITUATION IN WORLD CURRENCY MARKETS INVOLVING THE
FUTURE OF THE DOLLAR AND THE INTERNATIONAL MONETARY SYSTEM OF
A SUSTAINED IMPROVEMENT IN THE U S BALANCE OF PAYMENTS
WORLDWIDE ECONOMI CONDITIONS ARE FAVORABLE TO A FURTHER
IMPROVEMENT OF U S TRADE SURPLUS IN THE PERIOD AHEAD IN MY
OPINION PASSAGE OF H R 5846 WOULD REMOVE A SERIOUS ROADBLOCK TO
RECOUPING SOME OF THE LOSSES OF RECENT YEARS IN OUR EXTERNAL
TRADE ACCOUNT AND CONTRIBUTE TO A FUNDAMENTAL STRENGTHENING OF THE
U S BALANCE OF TRADE AND PAYMENTS AND IMPROVED FUNCTIONING OF
THE INTERNATIONAL MONETARY SYSTEM
RESPECTFULLY SUBMITTED
HENRY H FOWLER

GOLDMAN SACHS AND CO

1231A EDT

EXIBANK WSH

EXIBANK WSH
TLXA041 (39)SYA045
SY NB036 XNT0271 KH PDF NEW YORK NY 24 928A EDT
HENRY KEARNS, CHAIRMAN
EXPORT-IMPORT BANK OF THE U S WASHDC.
DEAR HENRY IN RESPONSE TO YOUR INQUIRY I HAD THE PLEASURE OF SERVING ON THE PRESIDENT'S COMMISSION ON BUDGET CONCEPTS. THE WORK OF THIS COMMISSION WAS THOROUGH, AND I CONFIRM MY BELIEF IN THE PRINCIPAL OF A UNIFIED BUDGET. HOWEVER, IT WAS NOT THE INTENTION OF THE COMMISSION, IN MY OPINION, TO IN ANY WAY RESTRICT THE ABILPY OF THE EXPORT-IMPORT BANK OR OTHER GOVERNMENT INSTITUTION WHOSE PRINCIPAL PURPOSE IS TO ASSIST IN THE EXPORT OF GOODS AND ADERICES IN THIS CONUNTRY. I HAVE EXAMINED THE EFFECT OF THE ADMINISTRATION OF THE UNIFIED BUDGET AND THE LEGISLATION NOW UNDER CONSIDERATION BY THE CONGRESS. I BELIEVE THAT IT IS IN THE NATIONAL INTEREST THAT HR 5846 AND COMPANION LEGISLATION. S581, SHOULD BE ADOPTED AT THE EARLIEST MOMENT.
SINCERELY
ROBERT B ANDERSON.

5846 S581.

1045A EDT 24 MAY 71
EXIBANK WSH

C
O
P
Y

THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D. C.

March 8, 1971

Hon. John Sparkman
Chairman, Committee on Banking, Housing and Urban Affairs
U. S. Senate
Washington, D. C.

Dear Mr. Chairman:

This is in response to your request for our views on S. 581, "To amend the Export-Import Bank Act of 1945, as amended, to allow for greater expansion of the export trade of the United States, to exclude Bank receipts and disbursements from the budget of the United States Government, to extend for three years the period within which the Bank is authorized to exercise its functions, to increase the Bank's lending authority and its authority to issue, against fractional reserves and against full reserves, insurance and guarantees, to authorize the bank to issue for purchase by any purchaser its obligations maturing subsequent to June 30, 1976, and for other purposes."

The Council of Economic Advisers continues to support the proposal to exclude Bank receipts and disbursements from the Budget of the United States Government, for the reasons detailed in Mr. Stein's letter to you dated September 11, 1970.

The Council supports the other proposals in the Bill as necessary to the effective implementation of the Bank's programs.

Sincerely,

Herbert Stein
Acting Chairman

WEDNESDAY, JUNE 30, 1971.

PEACE CORPS

WITNESSES

JOSEPH H. BLATCHFORD, DIRECTOR
KEVIN O'DONNELL, ACTING DEPUTY DIRECTOR
MARC LELAND, GENERAL COUNSEL
WILLIAM INGLIS, DIRECTOR OFFICE OF VOLUNTEER PLACEMENT
EUGENE BUEHLER, ACTING DIRECTOR, BUDGET
JACK PORTER, DIRECTOR, PUBLIC AFFAIRS
RALPH VANDERVORT, JR., DIRECTOR CONGRESSIONAL AFFAIRS

SALARIES AND EXPENSES

PROGRAM AND FINANCING (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
Program by activities:			
1 Volunteer and project costs	60,381	52,100	43,700
2 Administrative expenses	30,395	31,000	27,500
Total obligations	90,776	83,100	71,200
Financing: Unobligated balance lapsing	7,674	6,900	
Budget authority (appropriation)	98,450	90,000	71,200
Relation of obligations to outlays:			
Obligations incurred, net	90,776	83,100	71,200
Obligated balance, start of year	30,307	28,577	24,077
Obligated balance, end of year	−28,577	−24,077	−22,577
Adjustment in expired accounts	−2,641		
Outlays	89,865	87,600	72,700

OBJECT CLASSIFICATION (IN THOUSANDS OF DOLLARS)

	1970 actual	1971 estimate	1972 estimate
PEACE CORPS			
Personnel compensation:			
Permanent positions	16,432	16,817	14,391
Positions other than permanent	2,140	2,310	2,013
Other personnel compensation	204	206	206
Special personal service payments:			
Employees	755	926	602
Volunteers and trainees	22,257	22,837	17,963
Total personnel compensation	41,788	43,096	35,175
Personnel benefits:			
Civilian employees	1,785	1,786	1,513
Volunteers	963	1,125	1,287
Benefits for former personnel	15	60	60
Travel and transportation of persons	11,657	10,970	9,509
Transportation of things	2,252	2,009	1,654
Rent, communications, and utilities	3,810	3,734	3,523
Printing and reproduction	652	566	566
Other services	23,932	16,238	14,670
Supplies and materials	2,736	2,392	2,233
Equipment	1,117	1,054	940
Insurance claims and indemnities	44	45	45
Total obligations, Peace Corps	90,751	83,075	71,175
ALLOCATION TO STATE, OFFICE OF INSPECTOR GENERAL, FOREIGN ASSISTANCE			
Other services	25	25	25
Total obligations	90,776	83,100	71,200

PERSONNEL SUMMARY

	1970 actual	1971 estimate	1972 estimate
Total number of permanent positions	1,138	1,238	1,188
Full-time equivalent of other positions	268	258	224
Average number of all employees	1,432	1,493	1,429
Average grade, grades established by the Foreign Service Act of 1946, as amended (22 U.S.C. 801–1158) (as amended Public Law 88–426):			
Foreign Service reserve	4.7	4.7	4.7
Foreign Service staff	7.3	7.4	7.4
Average salary, salary established by the Foreign Service Act of 1946, as amended (22 U.S.C. 801–1158) (as amended Public Law 88–426):			
Foreign Service reserve	$16,753	$17,173	$17,343
Foreign Service staff	$8,892	$8,905	$8,994
Average salary of unenumerated positions	$5,936	$5,996	$6,056
Average salary of ungraded positions	$3,397	$3,500	$3,600

Clerk's note: After the budget was submitted, H. Docs. 92–93 and 92–12 were transmitted to Congress containing $11,000,000 in increased funds for fiscal year 1972.

INTRODUCTORY REMARKS

Mr. PASSMAN. The committee will come to order.

I want to assure all witnesses present that there is nothing personal about my examination of these requests that come before this committee. I know that you are all Americans. You are dedicated, and because I do not share your philosophy does not mean that I don't respect you as Americans, but I would be very, very dishonest if I should ever vary my course from trying to contain foreign aid and the many spigots of foreign aid. I don't konw of any program, regardless of its nature, that you don't find some good in, but personally I think without a doubt if there is ever an agency in government that could and should be abolished it is the Peace Corps. There is a lot of duplication and the volunteers don't have to subscribe to the same policies that other personnel that go abroad do. In all probability, if we had some way of making a true evaluation, we could very easily estabilsh that we are on the minus side and not on the plus side of the Peace Corps program, forgetting all about the fact that we have provided close to a billion dollars, which we have had to borrow, for the Peace Corps.

I have been on this committee ever since its inception, I have been chairman for 17 years, and we have had more different programs and more different names for these aid programs than most of you would suspect. For many years I have been reading in the paper where the President, whether he was a Republican or Democrat, stated that he was requesting $2.8 or $3.6 or $3.2 billion for aid. People thought he was talking about total foreign aid and they didn't know that what he had in mind was a request for the Agency for International Development. It was an abbreviation for the name of the Agency for International Development and did not apply to foreign aid as such. Possibly you are surprised, too. But since you are going to be giving away some of our money, are you familiar with the total request made by the administration so far this year for foreign aid and assistance?

Mr. BLATCHFORD. Not exactly.

Mr. PASSMAN. I wouldn't embarrass you if I could, and you would miss it so far you would be embarrassed. It is $13,517,628,000. This is right out of the budget and I give the list to you with my compliments.

One other thing that I think all people who spend money should look at daily, and that is the daily statement of the U.S. Treasury. Do you look at it?

Mr. BLATCHFORD. No, I don't, Congressman, not on a daily basis.

Mr. PASSMAN. Do your staff members?

Mr. BLATCHFORD. I am sure they do.

Mr. PASSMAN. This is the last day of the fiscal year, I believe, June 30.

Mr. BLATCHFORD. That is right; it is.

Mr. PASSMAN. Do you anticipate a surplus or deficit for this fiscal year?

Mr. BLATCHFORD. In the ——

Mr. PASSMAN. In the budget, in the intake and outgo.

Mr. BLATCHFORD. I would assume there would be a deficit.

Mr. PASSMAN. What would you assume the figure would be, just a rough guess?

Mr. BLATCHFORD. Oh, what would you say about?

Mr. PASSMAN. You answer it.

Mr. BUEHLER. About $13 billion.

Mr. PASSMAN. If you use the old budget basis, it is going to be about $30 billion, and here you gentlemen are spending this money by the tens of millions of dollars and actually didn't keep up with the bare fact that we are having to borrow this money before we give it away.

Mr. BLATCHFORD. It makes us feel very humble with our small request here.

Mr. PASSMAN. From little acorns big trees grow. Now we will get this on the record. It may be small to you as a wealthy man, but to me $82 million lacks an awful lot of being small.

Off the record.

(Discussion off the record.)

Mr. PASSMAN. Mr. Director, I understand that you have a statement that you would like to make to the committee.

You may proceed.

GENERAL STATEMENT

Mr. BLATCHFORD. Mr. Chairman and members of the committee, 2 years ago I spoke before this committee when I had been with the Peace Corps for less than a month. I had just returned from visiting Kenya, Libya, and Iran. I had been thinking about the future of the Peace Corps, asking questions and seeking advice for a couple of months before taking office. I had some ideas then about what the 1970's would demand of the Peace Corps. I discussed with you both the problems and the promises. Now it is appropriate for me to return to the Congress and review what has happened over those 2 years.

REVIEW OF PAST 2 YEARS

I was not the only person asking questions about the Peace Corps in 1969. Questions were being asked overseas, by those whom we went to help and by the volunteers themselves. Questions were being asked at home—in this committee, if I remember right, there were some very tough questions asked. And President Nixon had spoken firmly of the need to bring the Peace Corps abreast of the times by "experimenting in new ways of helping people."

Here then are some of the answers I gave 2 years ago, with a report on how these new directions for the Peace Corps have worked out in the interval.

NEED FOR MORE SKILLED VOLUNTEERS

I said then that "the Peace Corps should make a greater effort to get the kind of people which I found the host countries asking for." The host countries were asking for specialists, for experienced men and women who could fill high priority development needs. We have made substantial progress.

We have increased the number of specialists with agriculture degrees sent overseas from 82 during 1969 to 226 during 1971, and the total number of Americans experienced in agriculture from 308 to 769. By the fall of this year there will be, altogether, nearly 2,000 Peace Corps volunteers working in agricultural development in countries where hunger is a fact of everyday life for millions of people. Six hundred volunteers will be participating in the green revolution, spreading knowledge and cultivation of miracle wheat and miracle rice.

This year we will send aboard 242 craftsmen from industry and unions, who will serve as vocational education instructors.

And this year we will send 301 specialists in natural resource development, wildlife and watershed management, and soil conservation. These experts will serve in 34 countries, helping those nations preserve and protect their natural resources.

IMPROVED TRAINING

One of the great resources of the Peace Corps since its earliest days has been the "generalist" volunteer—often a recent college graduate who could adapt himself quickly and easily to the demands of his situation overseas. We have found new ways of using his important abilities through specialized training. In 3 months of intensive training a generalist can be taught the skills necessary to perform in some paraprofessional roles overseas. These new training techniques have proven particularly useful in connection with agricultural extension, disease control, irrigation, well-drilling, and one-crop food production projects.

The result of these two developments—our greater success in recruiting skilled volunteers and our new techniques of training—is that we have reduced the number of "generalist" volunteers in the field from 70 percent in 1969 to 29 percent during 1971.

FAMILIES IN THE PEACE CORPS

My second conclusion when I first spoke with you was that "the need for trained people was so great that all those who are needed" and who are qualified "should be called on to serve, despite the fact that they may be married and have children." By this fall, 224 family units will have entered Peace Corps training, and that number will be increasing in the future.

I also felt strongly that the Peace Corps should "make a special effort to insure that we are adding a new resource to countries served, not just filling manpower needs that should be met by others."

For this purpose, large contingents of volunteers—20 to 150 in the same program—were not always necessary. A handful of people with special skills, working as a team, might be of greater benefit. Today the Peace Corps has volunteers with 312 skills, often 30 or 40 different skills in the same country. This year alone 161 "individual placements," volunteers with specific skills who work alone, will be sent abroad.

And we have begun a program of evaluation of programs to make sure that they were actually adding a new and needed resource. These evaluations have been taking place, and they have resulted in substantial cut-backs in numbers of volunteers in some program areas. For example, in Latin America the number of volunteers in "community development" has been reduced from 1,555 to 367.

IMPROVED ADMINISTRATION

My fifth thought, 2 years ago, was that "Peace Corps administration must be improved." Substantial changes have been made. The size of the permanent Peace Corps staff has been cut by 29 percent. Just one example of the kind of reductions we have made is found in the fact that the number of American staff physicians overseas has been reduced from 134 several years ago to 34 today. Local physicians have been hired in their place with substantial financial savings and no reduction in the quality of health care.

And headquarters in Washington has been reorganized—some offices have been eliminated, their functions combined with others, and new divisions created where necessary. One indication of the success of this reorganization is that where once certain kinds of mail from volunteers in the field was backed up by as much as 6 months, now all our correspondence is current.

PEACE CORPS PROGRESS IN PAST 2 YEARS

The effect of all these changes has been felt already in the field. The Peace Corps is moving rapidly into programs with what we have come to call a "multiplier effect," meaning that the Peace Corps volunteer has effects in the host country beyond the immediate work he does. We are moving into teacher training, rather than classroom teaching. We are looking to demonstrations of high-yield, high-protein agriculture rather than community development. And we seek to send volunteers in other fields who are not only skilled in critical development areas but who can upgrade the skills of their host-country counterparts by working side-by-side during their years overseas.

And the effect of these changes has been felt at home as well. Host country requests for skilled volunteers have increased rapidly, putting our talent for recruiting to a test. But applications have increased in recent months to an encouraging level—the applications in the first quarter of this year were the highest in 5 years. And these applications have come from Americans whose skills are closely attuned to host country requests which means that the Peace Corps is coming to be able to draw from an applicant pool which has increasingly large num-

bers of persons with experience and training in key development areas—agriculture, city planning, health services, teacher training, and so forth.

WORKING IN PARTNERSHIP

Changes have also come in areas which are not so easily quantified. We have begun an effort to put Peace Corps volunteers at work in multinational teams with volunteers from other countries, principally those from Europe.

A great effort has been made to integrate the Peace Corps more closely into the planning and operation of host country projects. We have virtually eliminated the exclusively Peace Corps or American project in favor of Peace Corps volunteers working for and under the supervision of local leaders. Today more than half of our overseas staff are non-Americans—another indication of our emphasis on making the Peace Corps theirs as well as ours.

Our movement toward hard programing has meant that we have been willing to allow the total number of volunteers overseas to go down. In 1966 the total number of volunteers and trainees started to decline. In 1969 the total number was 10,600; today it is 7,900.

To be sure, the downward trend, begun 4 years ago, is being reversed. This year both request and applications have taken a turn upward for the first time in 5 years and March was the highest month of applications in Peace Corps in 5 years. We are proud of that record. But we are not initiating a concentration on numbers for their own sake.

The programing and training of a smaller number of more specialized volunteers for a wider variety of jobs is more expensive than mass programing and training. This decision naturally produces a somewhat higher cost per volunteer. We have sought to recruit more members of minority groups. Recruiting from 312 special skills is more difficult than merely amassing a large number of applications. Families are more expensive than single volunteers. On top of this, the Peace Corps has, of course, been subject to the effect of inflation and the numerous Federal salary increases in recent years.

FISCAL 1972 BUDGET

The result of the changes in the number of volunteers and the combination of increases and decreases in costs is a budget request before you today of $82.2 million. With these funds, we intend to support a total strength of 8,320 volunteers and trainees in 1972 and place 5,800 new volunteers into training, an increase of 1,000 over this year's figure.

Compared with the fiscal year 1971 budget of $85.1 million, the 1972 figure is $3 million lower, as a result of the significant reduction we have made in our administrative expenses costs for next year. This is the lowest Peace Corps budget since 1964. This estimate has been determined and submitted to you by amendment only after our exact number of trainees for fiscal year 1971 was known and program requests for fiscal year 1972 were as specific as they can be at this time.

I have talked about changes in the past and I would like to conclude with a word about the future.

Tomorrow the administrative responsibility for Peace Corps will move from the State Department to Action, President Nixon's new

initiative to increase the number and improve the contribution of volunteers at home and abroad. Although the additional funds the President will request for Action will be dedicated to domestic programs, we expect to see the Peace Corps grow within Action.

MERGER ADVANTAGES

Being in the same agency with domestic programs will have certain advantages for the Peace Corps and this country. Volunteers want to relate their overseas service to contributions in the United States, so we will design 3-year "combined programs" for service at home and abroad. Action will be able to channel returning volunteers into part- and full-time positions whether or not they are in combined programs. In addition the agency will be able to develop a common cadre of experts to be used at home and abroad and centralize expertise about successful volunteer programs.

Moreover, within its own right the Peace Corps has an exciting future. We expect to pioneer in new ways of making needed human resources available to developing countries. We have already developed a Sports Corps, an International Ecology Corps, in cooperation with the Smithsonian Institution, and we shall soon have a new program in national park development and management, jointly with the National Park Service. We see a larger role for private institutions working with the Peace Corps, particularly universities which can design "intern" programs to meet specific needs abroad. We hope to see more members of minority groups in the Peace Corps, building on advances already made. We are also looking at several training models in the hopes of fashioning programs which will allow more Americans who do not enter with a skill to acquire the talents needed in promoting development.

A CONTINUING COMMITMENT

Substantial changes have been made and others are coming. The Peace Corps is better fitted to the times today than it was 2 years ago. It is more efficient, more effective, and more mature. It is smaller and less costly.

We have heard a call from the leaders and people of the countries we serve. And we have begun to heed that call. The Peace Corps of the next decade will have to be a part of an even more effective campaign against illiteracy, inefficiency, and inhumanity. Returned volunteers have told of the immense rewards the experience abroad has brought them. We want to be sure that the contribution they have made is as significant.

The job is a seemingly endless one. And the Peace Corps is only a part of the efforts that are being made to raise levels of living for the over 3 billion people in the world who live in poverty. That's all the more reason for concentrating on those programs which have the greatest impact. It's a reason, too, for making sure that Peace Corps projects contribute to the local resources which can take over the job in the shortest possible time.

And it is my reason for continuing the search for new ways in which the Peace Corps may continue its mission. We will broaden the range of skills the Peace Corps can provide overseas. We shall

increase the numbers of minority group members, of families and of experienced professionals who go abroad. We shall continue to examine our projects and our commitments to seek the greatest return for every dollar spent, every hour of volunteer's time in the field. No one has greater need of the resources expended on his behalf than the poor. No greater charge can be leveled against a man than that he has been profligate with resources entrusted to him for those in need.

At the heart of the Peace Corps is a continuing commitment to husband those resources well, and to bring them to the people of the world through the unique service of the volunteer. This idea has had reverberations around the world. It has seemed menacing to a few, but it has heartened multitudes. We seek now not only to improve but to continue with quickened and renewed dedication the service we have begun.

TOTAL APPROPRIATIONS SINCE INCEPTION OF PEACE CORPS

Mr. PASSMAN. Mr. Blatchford, as I read the record, I believe the cost of the Peace Corps, including your amended request for fiscal 1972, now takes it within just a few million of $1 billion since its inception. What does your record show?

Mr. BUEHLER. Yes, sir; appropriations through fiscal year——

Mr. PASSMAN. I am making it inclusive of this request because you are submitting it. What do your figures show is the grand total?

Mr. BUEHLER. $993 million.

Mr. PASSMAN. $993,314,000, just a few million under $1 billion. Is that correct?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. I wonder if the witnesses realize that we had to borrow this money? Do you? Our Government had to borrow this money before it could spend it; isn't that correct?

Mr. BLATCHFORD. I am sure a great deal of it was raised——

Mr. PASSMAN. I say all of it was borrowed because your own household comes ahead of your neighbor's household, doesn't it?

Mr. BLATCHFORD. I assume it is all a part of the budget.

Mr. PASSMAN. No; your Government comes first. Your own Government comes ahead of foreign programs. Wouldn't you say that was a fair statement, that our military would come ahead of foreign military?

Mr. BLATCHFORD. I don't know how it is handled.

Mr. PASSMAN. What I am trying to do is establish that when we started this thing off you may have been looking at around a $250 billion public debt. You are now around $400 billion, and I can say we funded this program with borrowed money. I would assume you wouldn't disagree with that. You are a married man, I see. Your family comes ahead of your neighbor's family, doesn't it?

Mr. BLATCHFORD. Yes, sir; always comes first.

Mr. PASSMAN. And I should say that our Government and its vital functions certainly would have a priority on our tax collections over any foreign aid program, would it not?

Mr. BLATCHFORD. Yes. I assume that is why budget allocations for domestic programs are far greater than any foreign aid.

Mr. PASSMAN. I am just showing that over half of your public debt represents foreign aid expenditures. It is going to exceed $211 billion since its inception when we balance the books as of June 30 of this year.

Mr. BLATCHFORD. Yes.

(Discussion off the record.)

Mr. PASSMAN. The figure we mentioned a minute ago about the total cost of the Peace Corps since its legal inception, including the fiscal 1972 request, was $993,314,000. Now, to that we would have to add the allocation made by President Kennedy prior to the actual legal authorization, would we not?

Mr. BLATCHFORD. That is true.

Mr. PASSMAN. And that brings it right up in the neighborhood of $1 billion?

Mr. BLATCHFORD. In the neighborhood of it, I am sure it is; yes, sir.

UNOBLIGATED BALANCES IN PREVIOUS YEARS

Mr. PASSMAN. This has been established as a sacred cow from its beginning. Yet there have been more disappointments, in all probability, in the Peace Corps than any other agency that this committee has had to deal with because of the clever way in which your predecessors handled it. Now, I believe that if we read the record, in 1962 the original request was $40 million. The committee allowed $30 million. Is that correct?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. And you had at the end of the year $504,000 unobligated; is that correct?

Mr. BUEHLER. That is correct.

Mr. PASSMAN. If we take fiscal 1963 the budget request was $63,750,000. The Congress appropriated $59 million. You finished the year with an unobligated balance of $3,864,000. In 1964 the request was $108 million in the original budget and just prior—and this was a new scheme that was started—to sending it up to the Congress they reduced the budget request from $108 million to $102 million; is that correct?

Mr. BUEHLER. That is correct, sir.

Mr. PASSMAN. But, nevertheless, the agency obligated only $76,164,000, leaving $19,800,000 unobligated funds?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. Then in 1965 the Peace Corps requested $115 million. A few days before coming before the committee they amended the budget downward to $106,100,000; is that correct?

Mr. BUEHLER. That is correct.

Mr. PASSMAN. And we finally appropriated $104,100,000?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. But that year they wound up with $18,644,000 in unobligated funds; is that correct?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. In 1966 they requested $125,200,000. The committee approved $114,100,000 and you wound up with $927,000, in unobligated funds?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. And in 1967 the budget request was $110,500,000. It was amended to $112,150,000. The Congress allowed $110 million but you finished the year with $5,371,000 in unobligated funds?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. And in 1968 you requested $124,400,000. It was amended downward just before appearance before the committee to $118,700,000. We appropriated $107,500,000 but you finished the year with $654,000 unobligated funds. In 1969 the budget request was $112,800,000. The committee appropriated $102 million. You finished the year with $1,650,000 unobligated funds? Am I reading those correctly into the record?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. And in 1970 the budget request was $109,800,000. Just before the appearance before the committee it was reduced to $101,100,000 but you only spent $90,776,000, leaving unobligated funds of $7,674,000; and in 1971 you requested $98,800,000, amended it to $94,500,000 but you only spent $85,100,000, leaving unobligated funds of $4,900,000. Is that correct?

Mr. BUEHLER. Yes, sir.

BUDGET UNCERTAINTY

Mr. PASSMAN. Now, I assume that we would have to agree that there is a very large degree of uncertainty as to the actual needs when we look at original requests, when we look at amended requests, when we look at expenditures, and when we look at the unobligated balances. It certainly indicates a pretty high degree of uncertainty in the actual needs, doesn't it?

Mr. BLATCHFORD. Well, the needs have been changing.

Mr. PASSMAN. I know, but that would indicate an uncertainty. I want to be fair. With this kind of variation since the Peace Corps' inception it would certainly indicate that there is a high degree of uncertainty as to just what will be funded; isn't that true? Doesn't this record establish that?

Mr. BLATCHFORD. I thank that——

Mr. PASSMAN. I am not interested in what you think. I am interested in what the facts are.

Mr. BLATCHFORD. The facts are that 10 years do show a considerable change in the amount appropriated and authorized.

Mr. PASSMAN. Now, your original request was for $71,200,000 this year. Now, instead of practicing what has been practiced in many of the past years and reducing it downward so as to make an impression upon the committee, you appear before the committee asking for an increase over and above the original submission, are you not?

Mr. BLATCHFORD. Well, this is a matter within the executive branch as to estimating the numbers of requests, the number of volunteers that will be recruited. Last October it was estimated there would be enough recruits to fill the requests overseas with a budget of $71,200,000.

Mr. PASSMAN. You made the same statement in the past.

Mr. BLATCHFORD. More requests have come in and more recruits have come in.

Mr. PASSMAN. You didn't answer my question at all. I am going to ask the question again. In the original budget request the proposal for the Peace Corps for fiscal 1972 was $71,200,000, is that correct?

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. How could the administration or any person in the administration even before the beginning of the fiscal year have any idea as to how much money you would need, especially if you look at the record we have just discussed and read into the record?

Mr. BLATCHFORD. Because they had observed a downward trend in requests——

Mr. PASSMAN. Who are "they"?

DECREASING NUMBERS OF VOLUNTEERS

Mr. BLATCHFORD. The Office of Management and Budget, which is responsible for making up the budget requests for the President, had determined that there was a downward swing——

Mr. PASSMAN. You mean in the name of the President, not for the President, because the President doesn't know everything about all these programs you know that and I know it.

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. Thank you.

Mr. BLATCHFORD. So they, as a part of the White House operation, have estimated over the years a downward trend in requests and applications coming in, particularly applications that would be available for this coming summer.

Mr. PASSMAN. But the facts are that in previous years, without exception, we always cut the Peace Corps below the budget request, didn't we?

Mr. BLATCHFORD. Each year I believe it has been cut below the budget request.

Mr. PASSMAN. No. 2: Even though we reduced it you always finished the year with an unobligated balance, did you not?

Mr. BLATCHFORD. Yes; that is true.

Mr. PASSMAN. And I think in 1965 out of a $104 million appropriation, there was an unobligated balance of $18.6 million. In 1964, out of $95.9 million appropriation it is up to $19.8 million. I am just pointing out that it is impossible for you to know, according to the past record, whether you actually need $71,200,000 or whether you actually need less money or more money.

Mr. BLATCHFORD. Yes.

Mr. PASSMAN. Because the past experience with the Peace Corps shows that even though we cut below what you requested, you still leave substantial money unobligated.

NEW ADMINISTRATION

Mr. BLATCHFORD. Also, Congressman, I think you are failing to bring in the fact that a new administration has come in. I don't think you can look at the Peace Corps as one continual administration in its handling of the appropriations.

Mr. PASSMAN. Let me say that the chances are I am a stronger supporter of President Nixon in many respects than you are. There is nothing partisan about the way I run this committee. You found

that out. I think the witnesses that come before this committee know it didn't make any difference whether it was Mr. Kennedy or whether it was Mr. Johnson. We have always approached this on the basis of need and, of course, the bureaucrats with the help of the Congress are putting the big britches on Mr. Nixon. Who would have ever thought that a year ago you estimated a surplus of $1.3 billion for fiscal year 1971 and now in this year's operation you are going to finish with possibly a $30 billion deficit. We didn't anticipate such deficits, did we? So some of us have to try to protect you. There is no such thing as satisfying the appetite of all these people downtown.

Mr. LONG. Does the chairman want that admission; he is a good friend of the President, on the record?

Mr PASSMAN. I will repeat that I think Richard Nixon is making a good President. I think he is doing a good job. I think he is a great American. You have one President at a time and I am going to support him and hold his hand up. I served with him. I think he is a very brilliant man, and I have heard some very liberal Democrats say that they thought he has one of the best foreign policies that we have ever had under any President possibly in a century. Yes; I will leave it in the record, and he is my personal friend and I don't guess he would object to my putting it in the record. He called me Sunday and wished me a happy birthday and we had a very fine conversation over the telephone. Let me also say that I don't think we have ever had a bad President. We have had some, possibly, that maybe had better records than others but I don't think we have ever had a bad President, and it is a thankless job in many respects.

BILATERAL AID PROGRAMS

Now, I would imagine this should have some effect on the request in the Peace Corps. We have the bilateral technical aid program. You are familiar with that, are you not?

Mr. BLATCHFORD. Yes; I am, Congressman.

Mr. PASSMAN. We have the U.N. expanded technical aid program, do we not?

Mr. BLATCHFORD. Yes.

Mr. PASSMAN. And I think you have one going now under the Partners for Alliance in the general field of technical aid, self-help, do we not?

Mr. BLATCHFORD. I believe we do.

Mr. PASSMAN. I believe under the foreign agricultural program, that we also have some technical aid programs going, and I don't believe over the period of the entire history of all these programs that we have ever had any of the countries ask us to remove these technicians, have we?

Mr. BLATCHFORD. Oh, I think that many——

Mr. PASSMAN. Let's cite one for the record, now. Let's get right down to facts. Do you know of any country where the technicians in the bilateral technical aid program or U.N. expanded technical aid programs have been asked to leave the country?

Mr. BLATCHFORD. U.N.?

Mr. PASSMAN. I am talking about the United Nations expanded technical aid programs, the U.S. bilateral technical aid programs, so-called point 4 programs. Have you ever heard of any of them

where the nations have said get your bilateral technical aid people out of the country?

Mr. BLATCHFORD. Oh, yes.

Mr. PASSMAN. What country?

Mr. BLATCHFORD. They have been asked to leave various countries.

Mr. PASSMAN. What country?

Mr. BLATCHFORD. Nigeria, for example, and during civil strife in places like the Congo, North Africa, and the Middle East. We have had difficulties in our relations with different countries.

Mr. PASSMAN. I have to dispute that because even in Egypt after they broke off diplomatic relations we continued our technical aid program there, did we not?

Mr. BLATCHFORD. I believe we did in some cases.

Mr. PASSMAN. And continued making expenditures?

Mr. BLATCHFORD. Yes.

Mr. PASSMAN. I would just like you to cite any record where any nation has ever asked the bilateral technicians or the multilateral technicians to get out. All I want to do is be fair.

Mr. BLATCHFORD. I would be happy to try and get that information.

PEACE CORPS ASKED TO LEAVE CEYLON, PANAMA, AND BOLIVIA

Mr. PASSMAN. Since you were here last year you have been run out of a lot of countries. It causes me great concern and there are so few people who will look at the actual record. This is since you were here last year. Here is a Washington Post article of July 20, 1970, stating:

CEYLON GIVES THE PEACE CORPS 90 DAYS TO GET OUT

Ceylon has given 20 Peace Corps volunteers working there 90 days to wind up their affairs and get out, according to the U.S. Information Service.

It is the second time the Corps has been expelled from the country, both times under governments led by left-leaning Prime Minister Sirimavo Bandaranaike.

We go on and we have another look.We have a February 12, 1971, article from the New York Herald Tribune:

PANAMA OUSTING PEACE CORPS

Panama has asked the United States to withdraw its 120 Peace Corps Volunteers within 90 days because it considers them unnecessary, Foreign Minister Juan Antonio Tack said today. "We can enlist Panamanian volunteers to do the same things the Peace Corps is doing," Mr. Tack said.

He said he notified the U.S. Embassy yesterday of the decision to end the Peace Corps agreement with the United States.

Then there is another country you were run out of.

In a Washington Post article on May 14, 1971, the following was stated:

The powerful Bolivian central labor organization charged Wednesday that U.S. Peace Corps members are conducting espionage activities and corrupting Bolivia's youth with drugs. It warned President Juan Jose Torres to expel the entire Corps or face massive strikes.

The Peace Corps was accused of "espionage work for the American intelligence" and "trying to penetrate the minds of our citizens, especially in rural areas," with "imperialistic ideology."

I hate to read this into the record, but it should be read into the record and if you have any answers I would suggest that you put them in the record following this article. I think, all together, since its inception, the Peace Corps has been invited out of, if these three are correct here, some 17 countries, haven't they?

Mr. BUEHLER. Fourteen, I believe.
Mr. PASSMAN. Were you adding all these?
Mr. BLATCHFORD. Yes. I will provide a list for the record.
(The information follows:)

COUNTRY PROGRAMS TERMINATED

Country and date	*Reason*
1. Cyprus—February 1964	Health and safety of volunteers threatened by civil insurrection.
2. Ceylon—June 1964	When the first group of 39 volunteers to serve in Ceylon completed service, a new group was not requested. There was unrest in the Ceylonese Government and a general disaffection with Western assistance programs.
3. Indonesia—May 1965	Terminated by PC because of harassment of volunteers by PKI (Indonesian Communist Party).
4. Guinea—November 1966	PC volunteers were expelled after a series of incidents culminating with the removal of a Guinean delegation from a Pan Am plane in Accra, created strained relations between Guinea and United States.
5. Pakistan—June 1967	Government of Pakistan felt that volunteers did not possess sufficiently high levels of technical skills and did not request additional V's after last program was completed.
6. Mauritania—June 1967	To show solidarity with other Arab States during the war with Israel, Mauritania broke relations with the United States.
7. Gabon—December 1967	Gabonese Government requested PC withdrawal stating that Gabon could not continue to pay certain program costs such as school construction materials.
8. Tanzania—September 1969	The Tanzanian Government has not requested additional volunteers.
9. Libya—September 1969	Change of government. New government policy terminated teaching of English in public schools.
10. Somali Republic—December 1969	Change of government. New government requested PC to leave.
11. Ceylon—October 1970	PC returned to Ceylon in December, 1967, when a change of government took place. In September, 1970, PC again completed its service in Ceylon under circumstances similar to those in 1964.
12. Nigeria—December 1970	The Nigerian Government has not requested additional V's.
13. Panama—May 1971	Panama terminated PC programs on the basis that with U.S. help it had developed sufficient resources to establish, with the assistance of ISVS, its own volunteer forces.
14. Bolivia—June 1971	As a result of political instability and hostile actions against PCV's by segments of the Bolivian political spectrum, the PC was requested to withdraw by the Bolivian Government.
15. Guyana—July 1971	The Guyanan Government has not requested additional volunteers.
16. Guinea—July 1971	PC returned to Guinea in June 1969, and subsequently the GOG canceled all replacement and expansion requests as a result of the November 1970 invasion after which they retrenched on all foreign government technical assistance.

Mr. PASSMAN. That is a pretty good striking average. It is a pretty good insult to Americans when they have been invited out of 14 countries. It is a wonder you people wouldn't tell them to pack up their belongings and come home.

Mr. LONG. Will the Chairman yield?

Mr. PASSMAN. Yes.

NEW VOLUNTEER PROGRAM IN PANAMA

Mr. LONG. I wonder whether it is the Peace Corps' fault or the fault of the host country. Take Panama. I would be interested in hearing a little bit more about that, not necessarily right at this moment but some other time, because when I was in Panama several years ago I saw some very fine work done by the Peace Corps in helping these people build housing for the natives of Panama. I left with a good impression of the Peace Corps.

PEACE CORPS POLICY AS TO FREEDOM OF EXPRESSION

Mr. PASSMAN. The gentleman may be very much impressed. That is his opinion. I am not impressed. I think they are on the minus side, and I think the quicker we bring them home, the better off we will be because I do know that they do not have to support the same foreign policy that our troops support abroad. Now, right, wrong, or indifferent, we do have one country, we all love it, and if I go out as a Member of Congress, of course I go out supporting the policy of my country. I think that is true with all of our foreign personnel in the embassies, is it not, that they support the policy of our country?

Mr. BLATCHFORD. That is right, Mr. Chairman.

Mr. PASSMAN. I pleaded with you people down there, even asked the President to amend the legislation so at least all Americans serving abroad and being paid by American taxpayers' dollars would have to support the same foreign policy. Now, you may differ but we have one country, one President, and I think we should all support the policy of our Government.

NEW ORGANIZATION—"ACTION"

Now, you mentioned earlier about this being the last day of the Peace Corps. What is going to be the name of it in the future?

Mr. BLATCHFORD. The Peace Corps will be the international overseas operation of the——

Mr. PASSMAN. International? Wait a minute.

Mr. BLATCHFORD. The name that begins tomorrow is called Action.

Mr. PASSMAN. Action?

Mr. BLATCHFORD. And it consists of VISTA, the Peace Corps, the retired senior volunteer programs, foster grandparents, the SCORE and ACE programs that are housed within the Small Business Administration, and the Office of Voluntary Action, all existing agencies in the Federal Government——

Mr. PASSMAN. Voluntary Action?

Mr. BLATCHFORD. That is right. In other words, it is an attempt by the President to bring together under one roof all of the agencies dealing with volunteers that are serving their country at home and abroad.

Mr. PASSMAN. Including the military?

Mr. BLATCHFORD. Not including the military.

FREEDOM OF EXPRESSION

Mr. PASSMAN. Will this entire group under the new organization be given that same exemption from supporting our foreign policy, or will there be a new policy whereby all the volunteers will support our foreign policy or our Government?

Mr. BLATCHFORD. I am sure that most Americans would hope and expect that all Americans going overseas would generally support the policies of the country.

Mr. PASSMAN. But that is not true. The Peace Corps has been the exception, hasn't it?

Mr. BLATCHFORD. The Peace Corps has not taken a position.

Mr. PASSMAN. You don't mean the Peace Corps hasn't taken a position. I listened to them over in Thailand, and if I had my own way I would have put them all on the plane and sent them home that very day. While their brothers and cousins were dying over in South Vietnam they were cussing the administration for its policies, you are familiar with that, I am sure.

Mr. BLATCHFORD. I think that is very unfortunate, but I don't think it is the rule. I don't think that is the case with the majority of volunteers.

Mr. PASSMAN. They go across as independent agents. They are not required to support the policies of our Government.

Mr. BLATCHFORD. They are similar to other Americans, similar to private citizens.

Mr. PASSMAN. Is that true, that they are not required to support the policy of our Government?

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. But all these others——

Mr. BLATCHFORD. They are required to uphold the Constitution of the United States.

Mr. PASSMAN. I am asking a question. All other Americans who go abroad if they are military personnel or with our embassies are required to support the foreign policy of our country, are they not?

Mr. BLATCHFORD. I think that they do, and I think that the Peace Corps volunteers support the overall——

Mr. PASSMAN. You are being evasive. I just want direct answers. The others are required to do it?

Mr. BLATCHFORD. That is right, and the Peace Corps is not required to do it.

Mr. PASSMAN. The Peace Corps is not. That is all I wanted you to answer. Under the new organization, will all the personnel under this umbrella be required to support our country's policy if they are sent aboard?

Mr. BLATCHFOD. No, they will not be required to do it. They will be sworn in as volunteers to uphold the Constitution.

Mr. PASSMAN. You said they would not be required. You have answered the question. How about that group that is here in America? Are they going to be left alone to tear up this country?

Mr. BLATCHFORD. No, they will not.

Mr. PASSMAN. Or will they keep their mouths buttoned up about the administration?

ROLE OF VOLUNTEERS IN ACTION

Mr. BLATCHFORD. I think the orientation that we have developed in the Peace Corps and hope to develop in the ACTION program is that this is an organization of dedicated people willing to do a specific job of assistance in a foreign country or in a community here. They are not being sent out and indoctrinated to support or not to support any particular policy.

Mr. PASSMAN. They go out as free agents and don't have to support our policy?

Mr. BLATCHFORD. No; they are limited to accomplishing the job that they are sent out to do, whether that be agriculture, or whatever.

Mr. PASSMAN. Whether it is a socialistic form of government? They embrace it while they are there and keep their mouths shut; is that correct?

Mr. BLATCHFORD. I can give you the policy.

Mr. PASSMAN. I know what the policy is. When you say they are not required to support our foreign policy you have answered the question, and that is why you get all these headlines about being kicked out of 14 nations. It is a ridiculous record, and it is time that the Members go into the record of the Peace Corps and not just arrive at some airport and be taken out to look at some chicken farm that the Peace Corps gets credit for but to look at the overall operation. I don't mind telling you I think it is the worst agency in Government.

I am very familiar with this outfit. I don't like it. I think we are on the minus side. Other Members can defend it all they want to, and I do know we have had great success with our bilateral technical aid program, and you have switched over to the same field. I could have gone along with this if we had called it technical aid, as it really is. I could have gone along if they hadn't sent these people abroad as more or less independent agents. I don't know whether our foreign policy is right or not, but we have one foreign policy and one President at a time, and at least when I go abroad I am going to support my President and my country. Especially, I am disillusioned over the fact that in the past years in your budget requests you have been working downward but whether it was up or down the committee would make substantial cuts, and we would be subjected to certain criticisms, then at the end of the year we would still wind up with substantial unobligated funds, excess funds. As we all know as business people and working in the Congress, if you have too many funds there is an effort made to get those funds obligated. Now, let me get to this question of your total request and administrative expenses.

Mr. LONG. May I ask a question?

AMOUNT OF PEACE CORPS BUDGET USED FOR ADMINISTRATION

Mr. PASSMAN. Let me finish. You are asking for an increase. What is the total amount in this budget request for the total administrative expenses?

Mr. BLATCHFORD. $28.4 million, Mr. Chairman.

PEACE CORPS ASKED TO LEAVE CERTAIN COUNTRIES

May I respond to the other question? I just wanted to make two points. One, we admit that 2, 3, and 4 years ago there were a number of instances regarding Peace Corps volunteers publishing things and demonstrating. I can report in the last 12 months we have not had a single incident of that nature which would show that volunteers are demonstrating.

Mr. PASSMAN. Give me those clippings. Those are mine, not yours.

Mr. BLATCHFORD. The clippings indicate the Peace Corps was thrown out by leftist governments. Now, if volunteers are out talking about leftist governments, why would it be so wrong that they would be thrown out?

Mr. PASSMAN. It says in this article:

"The Foreign Ministry has asked the United States to withdraw the Peace Corps from Ceylon."

Is that true? It is a foreign minister.

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. And that is the same as the President of our country, isn't it?

Mr. LONG. You mean the prime minister.

Mr. PASSMAN. Yes, prime minister. She is the one who asked you out of the country. What are you going to do about Panama?

Mr. BLATCHFORD. There are still Peace Corps volunteers serving in Panama on a multinational basis, but they asked the contingent of Peace Corps volunteers there to leave because of an incident between the two governments that had nothing to do with the Peace Corps in the Canal Zone. It had nothing to do with the performance of the Peace Corps.

Mr. PASSMAN. That is what you say but they were asked to get out.

Mr. BLATCHFORD. I could also document that——

Mr. PASSMAN. The article says: "We can enlist Panamanian volunteers to do the same things the Peace Corps is doing."

Mr. BLATCHFORD. By the way, we have assisted them in getting Panamanian volunteers to take over a lot of projects, and we have helped them with the multinational program, including the Peace Corps volunteers, which is still operating in Panama and which is essentially replacing the work of the Peace Corps volunteer.

CONSOLIDATED BUDGET REQUEST

Mr. PASSMAN. I am going to ask you, if you will, to place in the record at this point the breakdown of the overall budget and tell the committee how you are going to be able to separate this part of the overhead expense from the other part, because now you have consolidated the Peace Corps with a lot of other pieces. What is your consolidated budget request?

Mr. BLATCHFORD. The consolidated budget request is $150 million.

Mr. PASSMAN. Does it all come under this new operation?

Mr. BLATCHFORD. No. This fiscal year each component agency will have its own separate budget request. In other words, it is being formed by an Executive reorganization plan and Executive order. Undoubtedly, the following year, fiscal year 1973, there will be one consolidated budget request, but this year there is not. We are going independently.

NEW AGENCY

Mr. PASSMAN. I asked the question because you said this was the last day of the Peace Corps and that you were starting on a new agency on July 1. If you are starting with a new agency with these several component parts it would appear that you should lessen the overhead percentagewise because you are administering several different arms.

Mr. BLATCHFORD. That is right, and we would expect to be able to report in a 12-month period that we were able to make this more efficient and make savings.

Mr. PASSMAN. How are you going to operate for the next 12 months? You are going to be the head of the entire show?

Mr. BLATCHFORD. That is correct, Mr. Chairman.

CONGRESSIONAL RELATIONS WITH NEW AGENCY

Mr. PASSMAN. Before what committees are you going to justify the other funds?

Mr. BLATCHFORD. Under the Education and Labor Committee.

Mr. PASSMAN. That is one. Another one?

Mr. BLATCHFORD. The Banking and Currency Committee.

Mr. PASSMAN. Banking and Currency?

Mr. BLATCHFORD. Because small programs under the Small Business Administration will be transferred to ACTION.

Mr. PASSMAN. They don't appropriate money.

Mr. VANDERVORT. And the Foreign Affairs Committee.

Mr. PASSMAN. I can understand the Education and Labor Committee and I can understand the Foreign Affairs Committee, but now where would the Banking and Currency Committee come in?

Mr. VANDERVORT. We would go to three committees for authorization the way it stands right now.

Mr. PASSMAN. For authorization.

Mr. VANDERVORT. We go to the Appropriations Committee for the money.

Mr. PASSMAN. How many different subcommittees?

Mr. VANDERVORT. This would be up to the chairman, sir.

Mr. PASSMAN. No; I mean, though, you have it in three pieces and you are only requesting now for this one wing of the three. Now you are going to have to go before other committees. What committees?

Mr. BLATCHFORD. VISTA is part of OEO and goes before the Subcommittee on Appropriations which handles the OEO appropriations.

Mr. PASSMAN. Is there a third committee?

Mr. BLATCHFORD. I believe it is simply the one that handles HEW and OEO.

Mr. PASSMAN. Before I yield to Mrs. Reid I want to say again there is nothing personal about this. I don't like your outfit. That is my right. Chances are I made too many trips around the world, and I say that there is no program that you don't find some good in but at least we haven't had the bilateral technical aid or the United Nations expanded technical aid asked to get out of 14 countries. Now I yield to Mrs. Reid.

REVITALIZED PEACE CORPS

Mrs. REID. Thank you, Mr. Chairman. Mr. Blatchford, I want to welcome you to the committee. I feel that you have given us a report which certainly shows substantial progress in revitalizing the Peace Corps and, I feel, strengthening the administration during your 2 years as Director. I may not agree with all of the actions throughout the Peace Corps, but I think you are doing a good job, and I do feel that reorganizing these groups so that we can have the volunteer agencies together will certainly strengthen the whole program.

Mr. BLATCHFORD. Thank you.

Mrs. REID. To go along a little further with the chairman's line of questioning, you mentioned your orientation program with the volunteers. Just what do you teach or tell them in this orientaton?

ORIENTATION OF VOLUNTEERS

Mr. BLATCHFORD. Well, in the last year and a half we have instituted something we call the preinvitational staging program. Previously volunteers simply went directly into training and directly overseas. Now we have kind of a mutual look-see where volunteers are brought together, for example, those in the Chicago area to Chicago, those in the mid-Atlantic region to Philadelphia, and so forth. Our people go there and present them with what they are going to do, what they were getting into, the kind of counry it is, the kind of assignment, and they show it very realisticlly, introduce what our policies are on political involvement, drugs, and the like. The volunteer could take a look at what the Peace Corps is really like before he makes his preference, and we could look at the volunteers before we issue an invitation.

PREINVITATIONAL STAGING

Mrs. REID. In other words,, you screen them?

Mr. BLATCHFORD. We screen them in this regard and, essentially, they screen the Peace Corps in a sense. As a result, we now get a volunteer into training who knows our policies from the beginning, and we take a very hard-nosed, very practical, oriented tack with them. Those who then come in, come in knowing what they are getting into, and knowing what they are committed to and we know what we are getting. We think this will have two benefits. One, there won't be this controversy over what our policies are on drugs, politics, and so forth, because they learned of them after they were in. Second, it will reduce the attrition of volunteers who drop out from training and drop out overseas, at a great cost to the Peace Corps. We are seeing some preliminary figures that would show this is happening, that our attrition will be lower and performance on the job will be better because of this preliminary screening program. We are doing it for about half of our programs this summer because it was a big administrative change, and we would hope to do it with all the programs in the future.

DECREASING POLITICAL INVOLVEMENT BY VOLUNTEERS

Mrs. REID. I think we are all concerned about anyone going into another country and not upholding our country and our Constitution, our flag, and so forth, and I have heard about reports in the past when this has happened but I have the deep feeling that you have looked into this very carefully yourself, and that you are not going to accept a volunteer who would show any tendency toward that kind of policy. Now, wouldn't this be true?

Mr. BLATCHFORD. I would say it slightly differently. I would say we would look very hard at volunters and accept only those who really have a contribution to make in terms of that country. That is why the requests from overseas have changed considerably, and they are up for the first time in 5 years, particularly in the fields of agriculture, experienced teachers, and in skilled trades and in the white collar professions. We find that people like this are what countries are asking for, and when they do get on the job they are busy all day and night performing in their field, and they are less interested in politics. They don't have the time for it. The country works them right into its local structure in the Ministry, has firm jobs. We put much greater emphasis on the programing process, are certain that they get the necessary support, that there is plenty for them to do, so that there isn't the usual discontent of having too much time and not a well-defined job and well-defined skill that you can work in.

I think some of the problems of young people were caused by that, by simple lack of firm programing, training, and effective selection process. But we still don't attempt to indoctrinate, one way or the other, and I don't think it is necessary. The main thing is an overall program philosophy of serious, pragmatic people doing the job. That is what the countries want, and that is the kind of people we want to send, and if we do that we are not going to have the problems of local involvement and political involvement, and we have not had them in the last year.

Mr. REID. Thank you, Mr. Chairman. I will ask my other questions later.

Mr. PASSMAN. Thank you. I yield to my coworker, Dr. Long.

REDUCTION OF COMMUNITY DEVELOPMENT VOLUNTEERS IN LATIN AMERICA

Mr. LONG. I see you made a tremendous cut in the number of volunteers in the Latin American community development programs, from 1,555 down to 367. Would you give me the reason for this, Mr. Blatchford?

Mr. BLATCHFORD. Yes. We said 2 years ago we were going to take a hard look at the programs and those produced in the country's terms. We found in those programs, though well-intentioned, that they yielded very little on the terms of the country. The country often did not understand the programs, and were incapable of supporting the volunteers.

Mr. LONG. You mean controversial or ineffective?

Mr. BLATCHFORD. I would say the programs were simply too vague or ill-defined for the country to lend the kind of support they required.

Mr. LONG. I am planning to visit Colombia, Venezuela, and possibly one or two other countries in August. Do you have Peace Corps teams there?

Mr. BLATCHFORD. Yes, sir. We would be happy to show you some of the work.

NUMBER OF VOLUNTEER TEACHERS

Mr. LONG. I would be delighted to see it. I note you are going away from having volunteers in the classroom to having trained teachers. What is the reason for this? Did the host country request this?

Mr. BLATCHFORD. Yes. In fact, it is a joint program and procedure. We find that at one time we had a tremendously heavy presence of teachers in classrooms, particularly in Africa. As countries now are more capable of providing their own teachers, either trained abroad or by their own training programs, that, combined with, I think, our desire to be more of a catalyst and not do the work for them, that we have moved into teaching teachers and curriculum development and new fields such as math and science. Our numbers are limited, and our decisions are where our resources can be best used, and we decided more in curriculum and teacher training than in classroom teaching. We are not interested in just numbers.

VOLUNTEER FAMILIES

Mr. LONG. You are increasing the number of family units and, of course, this type of placement is more expensive than the single volunteer. Do you think the volunteer accompanied by a family is more effective than the single one? What is the explanation for this?

Mr. BLATCHFORD. The explanation is that we are trying to respond to the need for hard skills in developing countries.

Mr. LONG. Is it easier to recruit them?

Mr. BLATCHFORD. As you know, a man with experience and skill is going to be slightly older, and chances are he is going to have a family. If we can't find a single man who is, for example, a soil scientist or engineer, we will go to families, and we will invite him to take his wife and family if his wife is capable of doing volunteer work at the same time. We think the experience is clearly worth it to get that kind of skill and experience.

COMBINED OVERSEAS-DOMESTIC VOLUNTEER SERVICE IN ACTION

Mr. LONG. You speak of a 3-year combined program in which volunteers will work on projects abroad and in the United States. How is this going to work? Is this 2 years abroad and a year in Appalachia? Could you elaborate on it?

Mr. BLATCHFORD. Yes.

Mr. LONG. Will funds for both parts of the program, including the domestic part, be contained in the Peace Corps budget?

Mr. BLATCHFORD. I will give you an example. The Teachers Corps/Peace Corps program where the Teachers Corps, with its own budget, is recruiting Teachers Corps interns to work with five universities in urban inner city areas for 1 year in this country. At the end of that

time we contribute partly to that as part of their training. Then they go overseas for 2 years in the Peace Corps.

Mr. LONG. So this domestic work is in the Peace Corps budget, then?

Mr. BLATCHFORD. It is pretty much equivalent to what we pay to train and recruit a man, anyway, and that goes to his year here, and it is a shared expense with the Teachers Corps and their budget.

Mr. LONG. I see.

Mr. BLATCHFORD. So on the domestic side it is a shared expense. Overseas it is the Peace Corps expense as normal. The program leads toward a master's degree in teaching for the volunteers, so they are essentially going into a career, and we find the academic credit along with the experience is very beneficial to them.

ECOLOGY CORPS

Mr. LONG. You have plans for an international ecology corps in cooperation with the Smithsonian and the national park development management program.

Could you tell us a bit about this? Is this to get in on the new gadget, ecology?

Mr. BLATCHFORD. Ecology is a catchall word for a lot of very, very important things: national parks, reforestation programs, soil erosion programs, in Costa Rica, for example. We just had a team of Ph. D.'s that went to Tonga to help the king make a survey of all his ecological resources and potential in that island kingdom.

So it may be part of the new wave of interest in natural resources, conservation and ecology, but we are getting a wave of requests for specialists in this field.

The Smithsonian helps us to recruit them. As they go overseas and do the job, when they come back the Smithsonian would hope to use them in our own country on some of these programs. Now after action begins, we could use them both at home and abroad. Up until now, we have only used them overseas and sent 300 people in this field.

Mr. LONG. That is all I have, Mr. Chairman.

Mr. PASSMAN. Thank you, Dr. Long.

Mr. Shriver?

MORE REALISTIC PEACE CORPS

Mr. SHRIVER. Thank you, Mr. Chairman.

Mr. Blatchford, I want to also, as Mrs. Reid did, congratulate you, especially on the more realistic attitude that you have instituted in your agency. I am aware of the recipient countries' requests for more volunteers who can actually do something. I know you are attempting to meet those requests.

Mr. BLATCHFORD. Yes.

PEACE CORPS IN AGRICULTURE

Mr. SHRIVER. You say nearly 2,000 of your volunteers will be working in agricultural development, 769 of whom are experienced in agriculture.

What does this latter term mean?

Mr. BLATCHFORD. That really means a degree. That means an advanced degree of some kind and probably some experience on top of that. A real specialist, in other words.

Mr. SHRIVER. It does not mean they grew some radishes?

Mr. BLATCHFORD. No. The others are the ones who lived on farms, or have a rural background, which is another category entirely. People who lived on farms, know something about it, can help small farmers. The 700-some refers to men with a degree.

Mr. SHRIVER. As opposed to these specialists, you have reduced a number of other volunteers in the field from 70 percent in 1969 to 29 percent in 1971. Are you planning to reduce this further?

Mr. BLATCHFORD. It will all depend on the requests that are coming in. The requests that are coming in will maintain, I believe, a skill mix of between 70 and 80 percent. There will always be a need for at least 20, probably more like 25 to 30 percent generalist, because the single male or female generalist who can learn the language is almost a specialist in many remote areas.

As you know, many of the volunteers go to many remote areas and learn tribal languages. Sometimes the single generalist is best equipped to do it. So there will still be a need for him or her in programs such as education, health, agriculture. The generalist, under the Peace Corps training, no longer is a generalist. Generalist refers to the background they had when they came in. We are endeavoring to train them in a skill, in agriculture or a skilled trade in the 16 weeks of training. Then they are able to communicate that simple skill overseas to the villagers that they work with.

TRAINING MODELS

Mr. SHRIVER. You say on page 11 that you are looking at several training models to train volunteers who have no special skill.

Mr. BLATCHFORD. That is what I am referring to right now. There is still a tremendous amount of people with good will, education, capacity to learn languages, and communicate with people. In a sense it is up to us to train them to have this skill. Many of them are members of minority groups who could go on after that in some profession, and we think that is a legitimate contribution we should make.

PEACE CORPS STAFF

Mr. SHRIVER. On page 5 you say the size of the permanent Peace Corps staff has been cut by 29 percent.

Mr. BLATCHFORD. That is correct.

Mr. SHRIVER. Does this include the one-half of the overseas staff which is non-American?

Mr. BLATCHFORD. That includes the total. We have cut the overseas American staff by even more than that, and then discounted it by the additional non-Americans hired. The total figure winds up at 29 percent less.

Mr. SHRIVER. In connection with this, you say on page 9 that your request reflects a significant reduction in administrative expenses for next year. How much of this reduction is a result of a takeover of some administrative functions by the new agency, Action?

Mr. BLATCHFORD. None. This reduction is based on the reduction in the staff which, even though accomplished 6 months ago, takes full

effect, in the size of the lesser payroll, during the coming year. We would assume further reductions, although ones we cannot estimate, beyond the reductions already made, due to savings in the new agency.

Mr. SHRIVER. One more question.

Last year you were not sure how much additional cost would be involved in the use of family units as volunteers, rather than single persons. You gave us some estimated figures. How have the actual costs compared with those estimates?

Mr. BUEHLER. We have a relatively small sample, sir. But considering an increment of two children to what previously had been a volunteer couple who did not have dependent children, we estimate an increment of approximately $6,000 per year. So that for a family with two children, the cost would be $26,000 per year as compared to approximately $10,000 for a single volunteer, or $20,000 for a married couple without children.

Mr. SHRIVER. Thank you, Mr. Chairman.

I yield back the balance of my time.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

Mr. PASSMAN. Mr. Hathaway?

Mr. HATHAWAY. Mr. Blatchford, it is nice to see you again.

Mr. BLATCHFORD. It's nice to see you.

GENERALISTS IN THE PEACE CORPS

Mr. HATHAWAY. After our picture-taking yesterday, I wanted to ask you a few questions on your statement first.

Is the percentage of generalists you anticipate continuing to decline? You mention on page 4 it is down to 29 percent. You take somebody with a liberal arts degree and train him in something specific, I assume.

Mr. BLATCHFORD. That is right. I think it will stay at approximately that, 25 to 30 percent.

Mr. HATHAWAY. Because you want it to?

Mr. BLATCHFORD. Because the need for volunteers, single volunteers that can learn languages, that are very flexible, who can go live in remote areas under very difficult conditions, is still a need.

Often the generalist with that background is best capable of doing that, as long as he can be trained in some simple practical skills such as agriculture. So I would anticipate that the need for them would continue and the supply is also there.

I think we have to keep in mind that generalists are often substituted and trained where we have a shortage of specialists. They may request 25 experienced agriculturalists. We may, for example, only have the capacity in a particular project to recruit 20 of them. We feel that we can recruit the remaining five from people with generalist backgrounds, people who perhaps lived on a farm or something who can be trained to work with the other 20, and therefore get the full complement of 25 that the country requested, very adequately. It still gives the opportunity for service to people right out of college as long as we can give the training and the requests are still there.

So we anticipate a continuing component, I would say of around 25 to 30 percent, in that category.

INCREASED TRAINING COSTS

Mr. HATHAWAY. You indicate, though, that the unit per capita cost of training is going to go up because you are going to train individuals in more than one field.

Is it not possible to recruit them already trained in more than one field?

Mr. BLATCHFORD. Yes; we do that.

Mr. HATHAWAY. So you can keep the training cost down, especially with the numbers going down?

Mr. BLATCHFORD. Yes. In fact, we do that wherever possible.

Mr. HATHAWAY. Your total training budget is going up, is that right? Am I reading it right?

Mr. BUEHLER. It is increasing, sir, primarily because of the smaller projects requiring greater skills. We are not training groups of 100 or 120 classroom teachers any longer. We are training groups of possibly 20 volunteers, one who is going to be in agriculture, another may be in a health program. Consequently, the overhead rate against that type of training as compared to the larger programs results in a larger cost per trainee.

Mr. HATHAWAY. You mean because they are doing more things?

Mr. BUEHLER. Because you have a smaller group to spread your overhead against.

Mr. HATHAWAY. Yes, but are you not training, for example, even though you are going to use only one agriculturalist in one particular project, you are still training 1,000 agriculturalists for other projects?

Mr. BLATCHFORD. But you do not train them together. When the Peace Corps was in heavy numbers of volunteers in fewer different fields, perhaps 200 English teachers would go to one place, they would all have one training, and arrive in a country together. Therefore, you could keep your training overhead very low. When we go for more specialists—for example, we sent 172 individual placements to individual places, they have to be tacked on with a rather complicated training structure in the languages. The overhead cost per trainee therefore is greater.

You are training fewer people in each skill, and you take the same amount of facilities to train 10 as it would to train 15 or 20. So with smaller groups of volunteers going into more diverse programs than ever before, into more areas, more countries, you have a slightly higher training cost per volunteer, but only because they are small groups.

We are able to reduce somewhat the costs of training because the specialists, as you indicate, come in already trained in their fields. However, there is still the cultural training, the language training, and the area training that still has to go on.

Mr. HATHAWAY. Do you train as a group if they go into one project?

Mr. BLATCHFORD. Yes; they do. Except now we have 547 different projects, and that is many more than there were.

Mr. HATHAWAY. That means 547 different training programs?

Mr. BLATCHFORD. Different groups, different programs.

Mr. HATHAWAY. Will they all learn about what the other is doing?

Mr. BLATCHFORD. No, sir.

For example, there are 14 different dialects and languages in India, seven different languages and dialects in the Philippines. They will

arrive for some training, and then three or four will have to go off and get additional language training.

Mr. HATHAWAY. And you have not been doing this before?

Mr. BLATCHFORD. No, we have not been doing it for such small groups for such diverse programs. We had many fewer programs and in fewer areas, with larger groups, therefore lesser number of training programs, larger in content, able to use the facilities to a greater extent than we are able to now.

Mr. HATHAWAY. Will your costs for training and costs for everything else be cut by the consolidation with VISTA and the other volunteer groups?

Mr. BLATCHFORD. I do not believe it will affect training costs. It will reduce administrative costs, and I am sure it will reduce the recruiting costs, the common kinds of recruitment; but training is still so individual and so diverse that we will not go back to the days of giant training camps and giant training programs.

EFFICIENCIES IN NEW AGENCY

Mr. HATHAWAY. There should be some overlap.

Mr. BLATCHFORD. With domestic and international?

Mr. HATHAWAY. Yes.

Mr. BLATCHFORD. Well, to this degree, to the degree that a man who spends 3 years——

Mr. HATHAWAY. Where a man spends time in the United States?

Mr. BLATCHFORD. To the degree that the volunteer comes back already trained in the project where he knows his field, very little training will be needed for him, versus the new man coming into VISTA. So the third-year man will not need any additional training.

Right now we have more volunteers signing up for a third year in a country than ever before. Therefore, the country is getting more of that skill and you have less continual influx of volunteers.

SEPARATE BUDGETS FOR ACTION COMPONENTS

Mr. HATHAWAY. Now, even though you are requesting separate budget requests for VISTA and for Peace Corps and other organizations that are in this new consolidated group, does that mean the funds can be merged after they are appropriated? So, that if we appropriate whatever you are requesting here, is there any guarantee that you are going to get the money and be able to use it or will the administrator be able to take half your funds and throw it into VISTA if he thinks that is where the money should go?

Mr. BLATCHFORD. No.

Mr. HATHAWAY. Either this year or in the future? That is one of the reasons I was opposed to the consolidation, because I thought that could happen.

Mr. BLATCHFORD. It cannot happen this year because the executive reorganization plan does not change the functions, and cannot really transfer the money from one authorization or appropriation to the other.

In the future, should it go in on one bill for the following year——

Mr. HATHAWAY. Which it will do.

Mr. BLATCHFORD. Which it probably will do, we still anticipate testifying before more than one committee, and earmarking those funds for international domestic, whatever, as the Congress sees fit. The Congress can still control that.

Mr. PASSMAN. Will the gentleman yield?

Mr. HATHAWAY. Yes.

Mr. PASSMAN. I do not see how we could ever administer a program successfully of that type, where you mix foreign with domestic. I just do not know how you are ever going to be able to do it.

Thank you for yielding.

Mr. HATHAWAY. This danger does exist, does it not, that funds that we may appropriate for you, not necessarily this year but say for fiscal 1973, could be used for some other agencies within this new group?

Mr. BLATCHFORD. I do not believe so, Congressman. I think that the Congress has every right to earmark and control the disbursement of the funds.

Mr. HATHAWAY. Provided we specifically say that to you?

Mr. BLATCHFORD. Yes, yes. We would probably, internally, do it anyway in our planning as to what degree we plan the funds to go into international, domestic, and so testify here when we came up. If you wanted to assure it, I am sure you could do that.

Mr. HATHAWAY. But if there is no congressional mandate, the President, whoever he may be that year, can do whatever he wants, just as they have done in OEO, where they have made other transfers, which I do not say are bad. It is within the administrator's discretion if we do not say something, so we had better say something if we want to be sure you are going to get the money after this fiscal year. I want to follow up your question, Mr. Chairman, on individual Peace Corps trainees.

PEACE CORPS OATH

As you indicated, they are required to take some kind of an oath to support the Constitution. Although I realize most Federal employees can say whatever they want to say off-hours, these people are really ambassadors from the United States. Are there any rules or requirements?

Mr. BLATCHFORD. Yes, there are. I would be happy to submit for the record our plan, not our plan but our policy on this.

(The information follows:)

Since 1961, Peace Corps has held steadfastly to an apolitical course. This policy is the keystone of the Peace Corps' long-term commitment to serve the peoples of our host countries and to serve them effectively.

Volunteers are not required to represent official U.S. foreign policies nor are they required to avoid discussing U.S. policies with host country nationals with whom they come in contact. They must be sure, however, in stating their views that they do not leave the impression that they are speaking in behalf of the Peace Corps or the U.S. Government.

It is Peace Corps policy that volunteer expression of opinion on political issues, whether United States or host country, may be made only in a private manner within our host countries. Obviously, the volunteers must avoid becoming involved in the political affairs of the host country. The Peace Corps' commitment is not to the political forces of a nation but to its people, and its responsibility is to the agencies of government through which the people can be assisted. A violation of these policies may result in termination.

Mr. BLATCHFORD. Volunteers are allowed to speak privately and say what they wish. They are not allowed to participate in local politics, nor engage in any kind of public demonstrations overseas in their country. These are grounds for dismissal from the program.

But the volunteers themselves are, I would say, often less outspoken than Members of Congress who travel around and are critical of our policies and administration in many instances. So they are not the only ones who are——

Mr. PASSMAN. I take exception to that in behalf of Members of Congress.

Mr. HATHAWAY. Yes; Congressmen and other Federal employees do not serve the same functions as these people are serving. They are ambassadors.

Mr. BLATCHFORD. The theory, as it was set up, was that volunteers are such that they ought to represent more of the American people as an open society, as people who are capable of going and showing that we are able to say our opinions, because that is the kind of society we are at home and that is the kind of society we represent. And to, in a way, provide a real breath of fresh air in many countries who can see that our people represent the basic population at home and come from our citizenry, rather than ones trained and indoctrinated to be diplomats, soldiers, and so forth. That is the theory behind the program, and it is still legitimate.

Mr. PASSMAN. Have you ever known of any more than two people to get together, that their discussions did not become loud to where everybody could hear it? Did you ever hear of a person getting two or three bottles of beer or a couple of drinks in him that he did not immediately express his views about the country he is in, with respect to our foreign policy?

That is kind of characteristic, is it not, that individuals talk after they have had a stimulant?

Mr. BLATCHFORD. I think it has been traditional.

Mr. PASSMAN. How many people have you brought home simply because they expressed their views? Have you ever brought any of them home?

Mr. BLATCHFORD. Volunteers have left who——

Mr. PASSMAN. You have not answered my question.

Have you brought any volunteers home on account of their determiation to criticize our foreign policy?

TERMINATION FOR POLITICAL ACTIVITY

Mr. BLATCHFORD. The answer to that is "Yes."

Mr. PASSMAN. How many?

Mr. BLATCHFORD. Two years ago we had approximately 12 or 13 volunteers who left by mutual agreement. They did not want to stay, and we did not want them to stay because they were not interested in doing their job. They were more interested in engaging in politics.

Mr. PASSMAN. That is all?

Mr. BLATCHFORD. That is all that has been necessary.

Mr. PASSMAN. Under your regime, 13 have been brought home out of how many thousands?

Mr. BLATCHFORD. About 10,000.

Mr. PASSMAN. You ought to put them in the ministry if they have that kind of record because you do not have that many down in any town in my home district that are so perfect. If you have those kind of characters, you ought to put them in the ministry. They should not be wasting their time in the Peace Corps.

Mr. BLATCHFORD. Many of them may go on to do just that.

Mr. PASSMAN. Yes; chances are that they would and I would like to see what kind of ministry they would go in.

Mr. Riegle?

REACTION OF VOLUNTEERS

Mr. RIEGLE. Have you taken any surveys of Peace Corps volunteers who have successfully completed their 2-year service, and if so, what do these surveys show?

Also, do these volunteers feel that they made a significant contribution to the health and welfare of the people in the country in which they worked?

Mr. BLATCHFORD. According to a survey entitled "A Survey of Returned Peace Corps Volunteers" by Louis Harris & Associates of December 1969, the following information was obtained:

Most of the returned volunteers had a good idea of their future career areas, and for a majority of the group, this was service oriented. Thirty-eight percent of the returned volunteers indicated that the Peace Corps helped them change or establish career goals. Sixty-one percent of the returned volunteers said that Peace Corps helped them advance their careers, while only 9 percent felt that Peace Corps had slowed them down. Among those who felt that Peace Corps had helped their career, a majority—67 percent—saw their Peace Corps experience as benefiting them in personal ways. Twenty-four percent mentioned benefits of Peace Corps to a specific career.

Fifty-seven percent of the returned volunteers had been in school since serving in Peace Corps, and 30 percent of the returned volunteers who had been in school indicated that they had learned a technical or vocational skill in Peace Corps which helped them in school. Language skills and educational experience were mentioned most.

Eighty-four percent of returned volunteers had had a job since Peace Corps. Of these, 36 percent said that they had learned some technical or vocational skill in Peace Corps which helped on the job. It appears, however, that in terms of income, the Peace Corps service puts volunteers about 2 years behind in earning capability.

Of the returned volunteers, 17 percent termed their readjustment "very difficult," 34 percent termed it "somewhat difficult," and the remaining 49 percent said that it was "not particularly difficult." The types of readjustment problems fall into two categories: (a) reorientation to the American life style; and (b) difficulty in communicating their experiences to Americans. Volunteers often mentioned the fact that most Americans did not seem very interested in what it was like overseas. Also, many volunteers, 74 percent, felt that they were more mature than other people their own age. Eighty-eight percent felt that they were somehow different from their peers as a result of Peace Corps service. They felt that they had a broader outlook on the world,

26 percent; were more mature and responsible, 17 percent; and had greater sensitivity to cultural variety, 16 percent.

Ninety-one percent of former volunteers considered Peace Corps to be very valuable to themselves. Volunteers said they grew in personal ways, gaining in maturity, sensitivity and understanding.

Forty-one percent of the former volunteers felt that the Peace Corps was "very valuable" to the individuals with whom they worked in the host countries. This feeling was highest among volunteers who worked in business and professional, 50 percent, and lowest among agricultural volunteers, 38 percent.

Only 24 percent felt that the Peace Corps was "very valuable" to the host country government. The percentage of volunteers who had served in Africa, 40 percent, was strikingly higher than in other regions—18 percent for each region.

Forty percent of the former volunteers believed that the Peace Corps is "very valuable" to the U.S. Government. The percentage was highest among those who served in Latin America, 48 percent.

REACTIONS OF CERTAIN COUNTRIES TO THE PROGRAM

Mr. RIEGLE. Can you cite any instances where a government with which the Peace Corps has been associated has been particularly impressed by the contribution the Peace Corps has made? I would also like to ask if you have had any independent evaluation or audit taken in any of the countries in which you have a mission?

Mr. BLATCHFORD. In response to your question I would like to provide the following information, the first of which is the text of a letter to the Peace Corps from President Diori Hamani, of the Republic of Niger in West Africa.

(The information follows:)

I take great pleasure in extending my greetings and congratulations to the U.S. Peace Corps on the 10th anniversary of its foundation.

Like many other African countries, from the outset Niger was extremely interested in the late President John F. Kennedy's innovative offer to send young American men and women to all the corners of the earth for the noble purpose of serving mankind.

When our country entered the community of nations, it was in great need of assistance, and the Peace Corps gave it to us unstintingly, helping us solve some of our most pressing problems in the fields of education, health, and agriculture. Moreover, I feel that Peace Corps volunteers, in their relations with our young men and women, have passed on some of their knowledge to them, thus enabling them to acquire new skills and to pursue more easily their subsequent endeavors on their own.

Ever since the first Peace Corps volunteers arrived in Niger in 1962, we have attached a great deal of importance to their relations with our people, which relations have always been marked by mutual respect and close cooperation. I am happy to have this opportunity to state how fruitful this cooperation has been.

In my travels in Niger, I have always been impressed to note how, even in the remotest villages, Peace Corps volunteers have shared very closely in the lives of our people, worked side by side with them, spoken their language, adopted their customs and, in sum, done their best to become one of them.

I also know that many Peace Corps volunteers have been sad to leave Niger after completing their Peace Corps service; some have even considered settling here permanently.

In the 9 years since the Peace Corps has been offering its generous assistance to Niger, I have always strived to maintain a close relationship with Peace Corps volunteers, directors, and programs. I have followed the steps of former Peace

Corps volunteers after they left Niger with great interest, and I have been particularly happy when some of them have returned to our country.

The vastness and the difficulty of our development efforts requires that all its facets be coordinated closely, and I have always been favorably impressed by the ease with which the Peace Corps has adjusted to our structures. Moreover, as we have progressed, we have asked higher skills and more extensive training of our friends. I am very grateful to the Peace Corps for responding to our wishes by modifying its recruitment and training programs accordingly. Many examples may be cited to illustrate the extent of our two countries' joint achievements. But there is one point I consider particularly important: We have both gained, we have both given, and we have both received.

To be sure, our cooperation has not been without its problems. That was to be expected because despite our peoples' mutual friendship and devotion to the same ideal, they do have their own originality, two different cultures and two separate traditions. It is normal and even necessary that we should not always see things in the same way. If indeed we have had problems, that has been their sole cause.

But our contacts and our joint endeavors have taught us precisely that we can rely upon a spirit of mutual loyalty which enables us to overcome our difficulties and to reach a deeper understanding. Thus, by sharing each other's lives, both the Peace Corps volunteers and their Nigerian hosts have become richer. Peace Corps volunteers have returned to the United States with a new concept of Africa, its people and its problems, and Nigerians, in turn, have gained a better understanding of the United States and developed an interest in that country. After that experience both parties will continue to be interested in each other's progress. That, as we all know, is the basis of international understanding.

We are indeed happy to be your partners in this noble and exciting undertaking, based on the ideal of world brotherhood.

His Excellency Diori Hamani,
President of the Republic of Niger.

The following information on Peace Corps operations in Niger may be of some additional interest:

There are 75 volunteers serving in Niger in five main programs—wells, public health, agriculture, forestry, and English teaching. The foresty program is especially interesting in that a new forest is being grown on this dry and desolate land. A new technique has been developed whereby trees can be planted in special plastic bags that sharply reduce the need for normal watering. They are thus able to survive the dry season. Another phase of this is a new effort aimed at growing grass where none has grown for decades. Early indications are that it will be a success and already some tribesmen are benefiting from it. Beyond this the programs are fairly standard and successful.

Please let us know if you need more information.

As part of its enabling authorization, the Inspector General of the Department of State regularly evaluates the programs and activities of the Peace Corps as a component of the overall U.S. international program. During the fiscal year 1971, reports were made by the Inspector General which covered the following countries in which Peace Corps is active: Dominican Republic, Fiji, Iran, Niger, Philippines, Sierra Leone, Tonga, Upper Volta, Western Samoa.

MULTILATERAL VOLUNTEER CORPS

Mr. Riegle. Has there been any attempt on the part of the Peace Corps to form multilateral units with Peace Corps type volunteers from other countries?

Mr. Blatchford. Yes; Congress has designated the Peace Corps in title III of the Peace Corps Act, as the agency "to encourage the development of and participation in international voluntary service programs and activities." We are contributing funds and volunteers to the United Nations volunteer program, to the International Secretariat for Volunteer Service and to the International Voluntary Services under the mandate from Congress in fiscal year 1971.

TERMINATION OF PROGRAM IN PANAMA AND BOLIVIA

Mr. RIEGLE. I understand that the Peace Corps has been asked to leave two countries in Latin America, Bolivia and Panama. Could you describe for the committee what untoward incident occurred in these countries to cause Peace Corps members to be asked to leave?

Mr. BLATCHFORD. The Panamanian Government requested termination of the bilateral agreement under which the Peace Corps operated in Panama on the basis of the following two reasons:

1. Panama had established, with substantial U.S. help, their own volunteer corps and would be relying upon it heavily for volunteer resources where they were needed to carry out grass roots social and economic development in the country.

2. Where the Panamanian volunteer corps is unable to meet the needs of Panama, the Panamanian Government has elected to affiliate itself with the International Secretariat Volunteer Services based in Geneva, Switzerland.

The Peace Corps was given 90 days to effectuate its withdrawal. This was accomplished in an orderly, efficient manner by May 12, 1971. The charges which finally led to Peace Corps withdrawal from Bolivia were multiple—a combination of government instability and pressure from the radical left who directed sufficient hostile propaganda toward the Peace Corps to convince President Torres and the Bolivia Cabinet that the 1962 agreement should be terminated.

PROGRAM LIMITATION

Mr. RIEGLE. Having been Director of the Peace Corps for approximately 2½ years, what do you see as its chief limitations to its goals? Are you, for example, in critical need of manpower, money, or any other resource that you don't have?

Mr. BLATCHFORD. Overall, the greatest limitation on me has been—time. Time in any given day to do the myriad of important tasks facing me. Time for my staff to do likewise. While any administrator can always use a little extra funds and manpower, Congress has been supportive of Peace Corps and has given us sufficient resources to do the job mandated by the Peace Corps Act. We, who are so deeply involved in the important work of Peace Corps, which is the work of helping the less fortunate of the world help themselves, tend to be impatient with our own results. We see so clearly the enormous problems of hunger, disease and ignorance that we can never be satisfied that we are doing enough to resolve them. We tend to be critical of ourselves that we aren't doing all that is possible with the resources provided by the American public, and that we aren't able to stretch our days and months, and even years, so that we could do more.

In a more conventional reply to the question, I have felt that the arbitrary limitation on our use of administrative funds as compared to program funds has hampered our effectiveness. This limitation arises, I feel, because there is no other agency of the Government with whom Peace Corps can be compared in a realistic way. Therefore, comparisons with others, that is, AID, become comparisons of apples and oranges. For example, we might provide 7,000 man-years of

volunteer service abroad which are charged to program funds. Our per man year costs, however, might only be one-quarter of an AID technician's because volunteers serve for only a living allowance remuneration. Yet our administrative costs, that is, my salary, our accountants' salaries, our country directors' salaries, and our payments to State for administrative support, are based on managing these 7,000 man-years of effort. I submit that the management responsibilities and demands are as great as if we paid the volunteer a technician's salary and benefits. To calculate our administrative costs as a percentage of our program costs and compare it to other agencies paying program personnel salaries does not appear fair to me.

STATUS OF PEACE CORPS IN PAKISTAN

Mr. RIEGLE. In the recent invasion of East Pakistan by West Pakistan, were there any Peace Corps volunteers in either of these two areas that were affected by the invasion? How are Peace Corps volunteers advised to deal with this kind of political instability?

Mr. BLATCHFORD. There are currently no Peace Corps programs in Pakistan. There were, to the best of our knowledge, no Peace Corps volunteers in either East or West Pakistan at the time of the invasion.

Peace Corps volunteers are advised of the political policy of the Peace Corps at the outset of their service. During a period of political crisis in a given country, the country director may reiterate this policy if he feels the situation warrants such. Alternatively, the volunteer may initiate a discussion of this policy with the country director at any time.

PROGRAM EMPHASIS

Mr. RIEGLE. How does the Peace Corps or how do you determine where the Peace Corps emphasis will be placed in the countries in which you assign volunteers? For example, it is my understanding that the most urgent problem in Latin America today is population growth. Do you have volunteers in Latin America working on this problem and what would be the percentage of their effort devoted to family planning?

Mr. BLATCHFORD. Essentially, Peace Corps responds to the needs of a given country as articulated by its government through specific requests for volunteer skills and program development.

The family planning strategy for Peace Corps was reviewed by a panel of experts in 1970. Prevailing opinions suggested a somewhat cautious approach in the direct use of volunteers in family planning projects. This approach is being followed in Latin America due to a high level of sensitivity to the subject and political misinterpretations which may derive from the keen feelings of Latins on this subject.

There are currently seven volunteers working in the Dominican Republic in the administration of family planning programs along with their Dominican counterparts. They are not included in the promotional work of the program. A modified job to provide involvement in nutrition education is now being worked out to allow deployment of 10 additional PCV's in that country.

In at least seven other Latin America countries, volunteers work in maternal child health and nutrition and other health education programs with some ancillary activities in family planning.

SELECTION CRITERIA FOR VOLUNTEERS

Mr. RIEGLE. In selecting volunteers for the Peace Corps, to what extent has the criteria changed? Do you look for the same type of individual today that you did 5 years ago?

Mr. BLATCHFORD. The Peace Corps is moving rapidly into programs with what we call a multiplier effect, meaning that the Peace Corps volunteer has effects in the host country beyond the immediate work he does. We are moving into teacher training, rather than classroom teaching. We are looking to demonstrations of high-yield, high-protein agriculture rather than community development. And we seek to send volunteers in other fields who are not only skilled in critical development areas but who can upgrade the skills of their host-country counterparts by working side-by-side during their years overseas.

Mr. PASSMAN. Mr. McEwen?

SPORTS CORPS

Mr. MCEWEN. It is nice to have you here. I have heard a good deal about you, and you are the one thing that might commend the Peace Corps to me.

What is this "Sports Corps" that is referred to in your statement?

Mr. BLATCHFORD. It is a name for a new thrust to send coaches and athletes overseas to help set up recreation and training programs for athletes. We have gotten a good deal of requests and interest in this.

For example, the President of Venezuela told President Nixon that one of his top priorities in his administration was to try to get recreation going as a way of getting young people, particularly those in the slum areas, involved in these kinds of programs. He asked if the Peace Corps could respond. Fortunately, within about 90 days we were able to find about 20 coaches that went to Venezuela to help set up these programs.

We have sent about 11 Olympic medal winners overseas as coaches. One of the Olympic medal winners is off to Malaysia to be the national coach of their team. This is not a major part of the Peace Corps, but it is one that has brought immense good will and has been requested by the countries. We think it has a very exciting potential.

Mr. MCEWEN. I am particularly interested, as members of the committee know, in a little community in my district that obtained the International Federation of University Sports (FISU), the World Student Olympic games, but they have financially overextended themselves. For lack of being able to get any Federal support at all, they may have to cancel the World Student Olympic games. I had hoped to find some interest in the Federal Government, but I did not find any.

Mr. BLATCHFORD. Now that we have a domestic mandate starting tomorrow, we might be able to——

Mr. MCEWEN. I am afraid they canceled it. I think it was a black eye for America, but I found I did not have anybody at the White House particularly interested. So that leaves me quite free not to be interested in some of their things, any more.

What do you have? Are these 90-day wonders?

I see you train them for 90 days and they then become specialists.

On page 3 you say in 3 months of intensive training, a generalist can be taught the skills necessary to perform in some paraprofessional roles overseas? What do you make out of them in 90 days?

Mr. BLATCHFORD. Principally agricultural specialists.

Mr. MCEWEN. If you took a student intern in my office, who was a political science major, what would you do with her in 90 days?

Mr. BLATCHFORD. We would train her as possibly a teacher of English or health specialist possibly in family planning or in inoculation programs, child care programs, and so forth.

HOST COUNTRY VOLUNTEER EFFORTS

Mr. MCEWEN. Now, if we can take a youngster in this country and in 90 days make some sort of a specialist out of them and send them to a country where they also have to learn a language, why can we not take one of their own young people in 90 days, they do not have the language problem, if we have somebody speak their language and train them to do it?

Mr. BLATCHFORD. In fact, that is what we are starting to do right now. We are helping them set up their own domestic Peace Corps; Korea, Ghana, Panama, Ethiopia, and Iran have already set theirs up. We work alongside them. I think this is an important direction.

The Ghana program is particularly interesting because some of our specialists are introducing now very quick training methods developed in this country to train in a short period of time young Ghanaians in skilled trades, so they can go on to get jobs or service opportunities in their own country. I think it is a very interesting program.

Mr. MCEWEN. What paraprofessional roles would you prepare them for other than teaching and health?

Mr. BLATCHFORD. Health and agriculture, basically, those three.

AGRICULTURAL TRAINING

Mr. MCEWEN. What do you do in 90 days in agriculture?

Mr. BLATCHFORD. Well, you have heard of the new miracle strains of wheat and rice and the green revolution in Asia. Last year I visited Malaysia, Thailand, the Philippines, and I saw young men, many from New York City, who had been trained at the Rice Institute in the Philippines on all the methods of these new grains, and they were actually able to work with farmers and triple their rice production by introducing this in Asia.

Now an important area we have moved toward is more specialists, more agricultural experts. They can often be trained to do some of the field work, almost as extension people, under the general supervision of the agricultural specialists in the local Ministry or agency along with our specialists.

Therefore, for example, in Nicaragua they learn simple things like beans and corn. They will go on horseback 14 hours a day in the most remote areas working with farmers introducing these techniques. It takes a very committed person to do this, if this has not been his background, but we do find some of these people and they are cer-

tainly worth the training we can give to them because they are willing to go to those areas.

A more skilled man with his family might not be able to get into those areas. He would work in the cities, but the generalist can be trained to do this.

PEACE CORPS POLICIES

Mr. McEwen. You said originally that through your training program you have with the volunteers now, they learn "what our policies are." Is there any directive given to them? I think you touched on this in answer to something Mr. Hathaway asked.

Is there any directive given to them as to what they shall not do, what is prohibited in their conduct?

Mr. Blatchford. Yes.

Mr. McEwen. What are the no-no's?

Mr. Blatchford. In general, they are told they cannot participate in any way in local politics, they cannot participate in any public demonstrations about local issues or international issues. They are there and they are basically oriented to do the job that they are trained for, and not to engage in local or international disputes in any public or ostensible form. Privately they can say what they think about things.

Mr. Passman. Will the gentleman yield?

Mr. McEwen. I would be happy to yield.

Mr. Passman. While we are calm, you did say that they did not have to subscribe to the same policy as other Americans going abroad, those with the Embassy and those in the military?

Mr. Blatchford. That is right. They are under a different——

Mr. Passman. You have answered the question. You could write a book on it. Thank you.

Mr. McEwen. Do they take an oath of allegiance?

Mr. Blatchford. Yes, they take an oath to uphold the Constitution.

PEACE CORPS ASKED TO LEAVE

Mr. McEwen. How many countries have the Peace Corps volunteers been asked to leave since you took over, Mr. Blatchford?

Mr. Blatchford. That is a difficult question. Some were already asked to leave before I got here. Since I came in, we have left Libya——

Mr. McEwen. Pardon, Libya?

Mr. Blatchford. Libya, Somalia.

Mr. McEwen. That is not listed on page 3 of this congressional presentation book, is it?

Mr. Blatchford. It could be, because this is covering the last year.

Mr. Buehler. That is on page 5, sir.

Mr. McEwen. What other countries, Mr. Blatchford?

Mr. Blatchford. Libya, Somalia.

Mr. McEwen. Where would Somalia be listed?

Mr. Buehler. On page 3.

Mr. McEwen. Somali Republic.

Mr. Blatchford. We left Guinea this year, which was as much a decision on our own as failure to renew visas.

Mr. PASSMAN. How about Ceylon?
Mr. MCEWEN. Guinea is on page 3.
Mr. BLATCHFORD. Guinea, Ceylon.
Mr. MCEWEN. Where is Ceylon?
Mr. BLATCHFORD. On page 5.
Bolivia.
Mr. MCEWEN. What page is that on?
Mr. BLATCHFORD. Four. I might note that when the leftist student campaign resulted in the ouster of the volunteers from Bolivia, the President of Costa Rica, who is a very good friend of America, President Figueres, asked that all of the volunteers in Bolivia come to work in Costa Rica in his country because he thought the Peace Corps was extremely valuable to his country—and it had been—and asked that we come there.
Mr. PASSMAN. Could it be we just made them a large grant aid about that time?
Mr. BLATCHFORD. No; it had nothing to do with other activities.
Mr. PASSMAN. Had the Peace Corps been there before?
Mr. BLATCHFORD. The Peace Corps had been already operating there very successfully.
Mr. PASSMAN. I do not want to interrupt the gentleman's train of thought.
Mr. MCEWEN. You have given us five countries, since you became Director, that have asked that the volunteers withdraw from the particular country?

NEW COUNTRIES

Mr. BLATCHFORD. Yes. I might add two countries which were in the process of phasing out the Peace Corps, Malawi, which you mentioned last year, Mr. Chairman, and Turkey, have now asked for more technical help in the fields we have been talking about. So that has been a reversal of policy in those two countries, and we have also entered new countries.
We have entered Mauritius, Mali, the Congo, and Malta in the last year.
Mr. MCEWEN. I notice of the five you mention, I was just looking at the figures on the number of volunteers, in the Somali Republic, apparently the year in which we had the greatest number of volunteers, according to the information on page 3 of your congressional presentation book, was 1966. Then there were less there the following year, in 1967 and less in 1968, and in 1969 it was down to 42, then the program there was terminated.
Does that indicate they were asking for a cut-back before you came into office?
Mr. BLATCHFORD. No. The Peace Corps was already in the process of phasing down many of its teaching programs in Africa.
If you look at Africa and you looked at teaching, you would see a considerable reduction in the number of classroom teachers which absorbed great numbers in Africa. That was a policy decision on the part of the Peace Corps.
Mr. MCEWEN. In Guinea we were out, in, out again, in again. Now we are out.
Mr. BLATCHFORD. That is right. It is a very flamboyant country.
Mr. VANDERVORT. It is also true of Ceylon.

PEACE CORPS ASKED TO LEAVE BOLIVIA

Mr. McEwen. What was the occasion that brought about our leaving Bolivia, Mr. Blatchford?

Mr. Blatchford. It was a campaign by a leftist student group throughout the country accusing the Peace Corps of a number of things, including sterilization of women, CIA involvement and a number of things, based on what I believe has been a rather effective Peace Corps program in the rural areas. This campaign, during a very unstable period politically in that country's history, resulted in the President of the country asking the Peace Corps to terminate.

The President, himself, did not reiterate these charges. There is no evidence whatsoever that the Peace Corps did anything but good work in Bolivia.

Mr. McEwen. They also got out of Guyana, did they not?

Mr. Blatchford. Guyana, that is correct. In fact, the Government of Guyana decided to dispense with all volunteer activities of all countries in that time period.

Mr. McEwen. What was the reason behind that?

Mr. Blatchford. That was their own reason, to nationalize and not depend on foreign help, which is of course a reason many governments have given, Tanzania and other places, simply to go it on their own, not to have any outside volunteer forces.

MULTINATIONAL VOLUNTEER EFFORTS

Mr. McEwen. My last question has to do with this multinational undertaking. Are the other nationals also volunteers?

Mr. Blatchford. Yes; they are, from Norway, Chile, Austria. We have programs in Panama and in Yemen where we participate with a limited number of volunteers along with the other countries. They are all volunteers, all carrying out similar missions.

Mr. McEwen. In other words, these countries have programs similar to our Peace Corps program?

Mr. Blatchford. To the Peace Corps, that is right.

Almost every European country has begun a Peace Corps-type operation in the last 10 years.

Mr. McEwen. Thank you very much, Mr. Chairman.

PEACE CORPS NAME

Mr. Passman. Thank you, Mr. McEwen.

I think the gentleman knows that I have taken the same position today that I have during the entire period of the Peace Corps. I was very fond of President Kennedy personally, and I liked Sargent Shriver, but I did not like the Peace Corps because it was a misnomer. The name "Peace Corps," there is no justification for giving it such a name because it is not in the field of working out peace; it has nothing to do with it. It is in the technical aid field, teaching, imparting knowledge; is that right?

Mr. Blatchford. Well, I might—I do not agree——

Mr. Passman. You do not answer the questions.

Are they not?

Mr. Blatchford. I will say no.

Mr. ROONEY. The answer is "No"; that is simple.

Mr. PASSMAN. Thank you very much.

Mr. BLATCHFORD. The answer is "No" because the Nobel Peace Prize this year—the Nobel Peace Prize Committee awarded the peace prize to Dr. Norman Borlaug, whose job was to develop new strains of agriculture and to feed more people——

Mr. PASSMAN. There have been a lot of people who got that Nobel Peace Prize where, if they could withdraw it, they would, I am sure.

Now let's keep the record straight. For various reasons you have been asked to remove Peace Corpsmen from 14 countries; is that the figure you gave me earlier?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. Fourteen countries. Did you include Panama?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. Bolivia and Ceylon?

Mr. BLATCHFORD. Yes.

Mr. PASSMAN. But the total is 14. That is a miserable record. I know that we all share the shame together.

PEACE CORPS AND THE DRAFT

Now it is my understanding that an individual in the Peace Corps is exempt from the draft, is he not?

Mr. BLATCHFORD. No; that is not correct.

Mr. PASSMAN. I said while he is in the Peace Corps.

Mr. BLATCHFORD. No; that is not correct.

Mr. PASSMAN. How many has the Army drafted out of the Peace Corps?

Mr. BLATCHFORD. What the Peace Corps receives is a postponement of their induction.

Mr. PASSMAN. You do not give the correct answers.

I say while they are in the Peace Corps. They are exempt from the draft while they are in the Peace Corps, is that correct?

Mr. BLATCHFORD. That is not a correct statement.

Mr. PASSMAN. Then do they draft them out of the Peace Corps?

Mr. BLATCHFORD. They draft them while they are in the Peace Corps; yes.

Mr. PASSMAN. How many have you had drafted into the Army out of the ranks of the Peace Corps?

Mr. BLATCHFORD. I could furnish that.

Mr. PASSMAN. Do you want to give us an estimate on it?

Mr. BLATCHFORD. Do we have an estimate on it?

Mr. LELAND. About 50.

Mr. PASSMAN. How many have you had in the Peace Corps since the inception of the Peace Corps? What has been the number?

Mr. BLATCHFORD. 46,000.

Mr. PASSMAN. 46,000. Now I think the committee is entitled to know if the Army has actually drafted members of the Peace Corps back home to serve in the armed services.

Mr. LELAND. In a small number of cases.

Mr. PASSMAN. How many?

Mr. LELAND. About 50.

Mr. PASSMAN. Fifty out of how many thousand?

Mr. BLATCHFORD. But that has been taken——

Mr. PASSMAN. Wait a minute, I am asking the questions.

Mr. BLATCHFORD. Yes.

Mr. PASSMAN. And you answer them.

I want to get that number. How many thousand, how many altogether?

Mr. BLATCHFORD. We are estimating that——

Mr. PASSMAN. The total number that has been in the Peace Corps since its inception.

Mr. BLATCHFORD. 46,000.

Mr. PASSMAN. 46,000. There have only been 50 who have been drafted out of the Peace Corps into the U.S. armed services?

Mr. BLATCHFORD. During this service.

Mr. PASSMAN. During their service, I am talking about during their service.

Now, for what reasons did they draft these 50?

Mr. LELAND. There were a certain number—until a year and a half ago almost all people received a deferment during the time they were in the Peace Corps.

Mr. PASSMAN. Of course, I knew that, but I was letting Mr. Blatchford make his own record. I know that, undoubtedly you know that, too.

PEACE CORPS DEFERMENTS

They were exempt from service during their tenure in the Peace Corps until a year and a half ago.

Mr. LELAND. Yes.

Mr. PASSMAN. If they extended their service in the Peace Corps, did they also extend the exemption from the draft?

Mr. LELAND. Some draft boards would, and some would not. It was up to the local draft boards.

Mr. PASSMAN. It is pretty hard for me to understand these evasive answers, because if you had 46,000, it stands to reason that many, many thousands of them would have been drafted into the service had they not gone into the Peace Corps.

Mr. ROONEY. Will the chairman please yield?

Mr. PASSMAN. Yes.

Mr. ROONEY. I take it a number of these were women who were not subject to the draft?

Mr. BLATCHFORD. 16,000 were women, many are married couples, many are families, many are over the draft age.

Mr. PASSMAN. I just made the case. Is that not what I said, "a large number"?

NUMBER OF VOLUNTEERS DRAFTED OUT OF PEACE CORPS

Mr. ROONEY. Let's see if we cannot get a figure as to how many of the 46,000 were subject to the draft and were not drafted.

Mr. BLATCHFORD. Right; I will try to find that out for you; it is very difficult, because after they leave the Peace Corps, many have been drafted.

Mr. ROONEY. Sargent Shriver would have that before 3 o'clock today.

Mr. PASSMAN. I want to make the record. I appreciate the gentleman's help.

Mr. BLATCHFORD. There are no deferments any longer, Congressman, so this is irrelevant as an issue today because the President eliminated them.

Mr. ROONEY. It is something to talk about though. It gives an indication of what this business is. I regret the day I ever voted a nickel for the Peace "Corpse," and I regret I used to fight for the high dollar.

Mr. PASSMAN. You let me make that decision whether it is irrelevant. I make that decision, not you. You are the witness. I represent 205 million taxpayers on this side of the table. I will be courteous, if you will permit me.

Now out of the 46,000 that served, we would like to have this for the record, what percentage of those, or number, would have been eligible for the draft had they not been in the Peace Corps?

If there have only been 50 out of the number of the 46,000 that were eligible, then for what reason were they drafted? Because that is a very small number, even if there is only 15,000 of them.

I would assume there are many more than that, that would have been subject to the draft had they not been in the Peace Corps.

It is rather strange that only 50 of them would have been drafted. Of course, I never expect to know the facts. You will get too busy to give me the detailed facts, but whatever you want to put in the record, I will read it; is that all right?

Mr. BLATCHFORD. We would be very happy to put it in the record.

(The information follows:)

Of the 46,000 plus volunteers who have been in the Peace Corps, approximately 27,000 were males within the 19 to 26 age group. Except for the last few years there was no lottery system. Using the latest lottery callup estimate only about 50 percent of an age group are subject to the draft and of this group 25 percent would be classified other than 1-A by their local boards. Assuming that the current draft environment had existed during the last 10 years, of the 27,000 males only 9,500 would have been subject to the draft.

The number of male volunteers actually drafted out of Peace Corps totals 350.

Mr. ROONEY. Over what period of time were these 50, referred to as a round figure, actually drafted?

Mr. LELAND. The figure, Mr. Congressman, refers to people who were called out of the field. The figure is much, much larger when it is phrased as to number of volunteers who were drafted, because, after they were finished with their 2 years of service, you have a large number who then served in the Army.

Mr. ROONEY. Do not confuse things the same as you have been doing for Mr. Passman. We are only concerned with those who were drafted while they were in the Peace "Corpse."

Mr. LELAND. While they were in the Peace Corps, the period was up to March 1970 when the rules were changed.

Mr. PASSMAN. Not any were drafted out of the Peace Corps then?

Mr. LELAND. No; 50 were.

Mr. ROONEY. Then I take it that the 50 figure refers to the history of the Peace Corps?

Mr. LELAND. Up to a year and a half ago.

Mr. PASSMAN. Under the policy as it was up to the time it was changed, they were supposed to have been deferred?

Mr. LELAND. It was up to the local draft board and——

Mr. PASSMAN. What I want to find out is why they drafted the 50. I want to get that. Let's get the record straight.

Mr. ROONEY. Maybe the Peace Corps caused that. Maybe they did something right.

Mr. PASSMAN. Maybe they could have.

There is still nothing personal about the questions. I want to be completely fair because I have taken this position ever since it has been my privilege to chair this subcommittee. I certainly supported Mr. Kennedy personally, I was very fond of him. I can say I was reasonably close because of some incidents between us. I think he was developing into a very great President.

Mr. ROONEY. How about Mr. Nixon?

Mr. PASSMAN. I have already said that Mr. Nixon does not have a greater admirer on the Hill than Otto Passman. He called me Sunday, we had a very pleasant visit, and he wished me a happy birthday. He knows I am going to back him up when I think he is right. When I think something is wrong, I am going to oppose him.

BILATERNAL TECHNICAL AID VERSUS THE PEACE CORPS

This is an extremely miserable record when it is looked at in an objective manner. Let's look at the so-called bilateral technical aid program and we might also look at the U.N. expanded technical aid program. These programs have been in effect for 25 years. I am now talking about your technical aid program.

Now your people do similar work, do they not? They teach, and they do quite similar work to that which is done in the bilateral technical aid program in these other agencies?

Mr. BLATCHFORD. There are many similarities in them.

Mr. PASSMAN. All right. Now let's look at the record.

I certainly do not want to purposely read the facts into the record to cause you embarrassment.

We have just discussed the matter with the agency about the point 4 program, the bilateral technical aid program, and all the other technical aid programs. There has only been one country, one country, that suggested that we not make any additional allocations under our technical aid program, and that was Cambodia. We have not been asked out of one single country. I make that for the record.

The ones that you referred to were the ones where we broke off diplomatic relations with the countries. Then of course we made no additional allocations.

So when you look at a program that is 50 times bigger than yours, has been operating two and a half times longer and there has only been one country that said "get out" and compare it to your record, it does not look good. If you people would listen sometime rather than trying to establish this program as a sacred cow, you would find that I am quite reasonable.

As far as I am concerned, when you make the one statement that they are not required to subscribe to our foreign policy, that eliminates them from my mind altogether. I would not let one of them ever board an airplane. They do not have to go out and make a speech every night supporting it, but they ought to be tied to the same type of loyalty, the same type of pledge, and the same type of responsibility as those people who go abroad in our bilateral technical aid and all other aid programs plus the embassy personnel abroad and the military personnel.

Now if it ever gets around to where they do that, I might be able to find some good they do and I would put it in the record and applaud them because it is not easy for me to be complimentary. But when you try to justify something that the record does not support, it irritates me.

Let me confess for the record that I have been wrong. I was wrong earlier when I said that President Kennedy allocated $10 million out of his contingency fund for the Peace Corps prior to a legal authorization. He did make an allocation prior to any authorization, but it was not $10 million, it was in the amount of $5 million. That is the correct figure.

I would like to have you place in the record what part of the $5 million you spent and what part was unobligated. I believe I could make this statement for the record, that part of it was unobligated; is that true?

Mr. BUEHLER. Yes; $1.6 million was obligated.

Mr. PASSMAN. That makes your record perfect, that even though we cut it every year substantially below your request, we left you overfunded every year. That will stand up in the record, will it not?

Mr. BLATCHFORD. Yes, sir.

Mr. PASSMAN. Thank you very much, sir. We will try not to repeat that practice.

ADMINISTRATIVE EXPENSE

Now let's return to the original budget request. I think we had better discuss the original budget request because almost every day we see programs that we are funding that are going to run this deficit next year out through the roof. Based upon your original budget request of $71.2 million, what part of that would have been administrative expense?

Mr. BUEHLER. The increase was all in programed funds. It would have been $28.4 million, sir.

Mr. PASSMAN. I am looking at your original budget and I am asking the question based upon your original budget. If you will only answer my question, I will get around to asking the second question on the inflated budget request.

Mr. BUEHLER. I believe it was $28.4 million, sir.

Mr. PASSMAN. $28.4 million.

Mr. BUEHLER. I am sorry, sir; $27.5 million.

Mr. PASSMAN. $27.5 million.

What percentage of $71.2 million is $27.5 million?

Mr. BUEHLER. Approximately a third.

Mr. PASSMAN. Do you have any other agency in Government where they spend one-third of their appropriations strictly for the administrative expense item? I think this is very pertinent. AID is asking for $57.6 million to administer a program of approximately $2.1 billion, are they not?

Mr. BUEHLER. Sir, we have the bulk of our workers as volunteers. Consequently——

Mr. PASSMAN. I am going to get into that. I am going to get into every bit of it, if you will just answer my question. We will cover the entire waterfront.

Now $57.6 million and $2.1 billion, what percentage would that be, as the administrative expense?

Mr. BUEHLER. Approximately 6 percent.

Mr. PASSMAN. About 6 percent.

Now let's get into the technical aid program part of the AID agency, which is doing about the same work that you are doing. They are asking for $382.4 million for the technical aid program, in the same areas, doing the same work, with about the same type of technicians, except that their technicians are more experienced and older.

We would assume they are more experienced.

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. Let me make this record. I am referring now to the technical aid part. So that part, the technical aid part of AID's request, is approximately five times your request, is it not?

Mr. BLATCHFORD. That is correct.

Mr. PASSMAN. And if you should apply that same percentage on that $382 million, one-third, you would come up to what, about $130 million?

Mr. PORTER. $127 million.

Mr. PASSMAN. $127 million?

Mr. PORTER. $127 million.

PEACE CORPS RECRUITERS

Mr. PASSMAN. Now, the reason I am making the point is that it would appear to me there is too much of your appropriation used in housekeeping and administrative expenses. How many recruiters do you have in America?

Mr. INGLIS. Seventy recruiters.

Mr. PASSMAN. You have 70 recruiters. Take the city of Atlanta, how many recruiters do you have in Atlanta?

Mr. INGLIS. We have about 17 recruiters going over an eight State area outside of Atlanta, where the headquarters is.

Mr. PASSMAN. How many U.S. Army recruiters do they have in that same area?

Mr. BLATCHFORD. I do not know, Mr. Chairman.

Mr. PASSMAN. Would you get it and put it in the record?

Mr. BLATCHFORD. Yes; I will.

(The information follows:)

The Southern Regional Office of the Peace Corps which is located in Atlanta, recruits volunteers from the following States: Maryland, West Virginia, Kentucky, Oklahoma, Texas, Virginia, North Carolina, South Carolina, Tennessee, Georgeia, Florida, Alabama, Mississippi, Louisiana, and the District of Columbia.

As of May 30, 1971, Peace Corps covered this territory with 16 recruiters and 18 staff members.

Army recruiting personnel for this territory totaled 2,197.

Mr. PASSMAN. I believe, to be able to qualify for a recruiter, you have to be a former Peace Corpsman, is that correct?

Mr. BLATCHFORD. Generally speaking. Not all of them are, but most of them.

Mr. PASSMAN. Generally speaking?

Mr. BLATCHFORD. Yes.

ADMINISTRATIVE EXPENSES

Mr. PASSMAN. That is pretty good.

Now, could you give us a breakdown on this $27.5 million as we

apply it to the old budget? Then we will move into your revised budget.

Heretofore, I think you probably pursued that course for several years, it was a must that about 10 days before we started hearings, to amend the budget request downward to show how conservative they were operating the Peace Corps.

It was quite a trick to request more than was needed and then cut it down and then later we cut it again but we still left it greatly overfunded.

Now, out of your amended budget request of $82.2 million, what part of that is administrative expense?

Mr. BUEHLER. $28.4 million, sir.

Mr. PASSMAN. How do you break that down? How much of it is for advertising?

Mr. BUEHLER. Sixty-nine percent of it is for salaries, sir.

Mr. PASSMAN. Well, I will stick with the original figure. Break it out.

I believe if we look at your own chart, it shows administrative expenses, actually is 34 percent of your request, is that true?

Mr. BUEHLER. That is right.

ADVERTISING

Mr. PASSMAN. What part of that actually goes for advertising?

Mr. BLATCHFORD. Practically none, Congressman.

Mr. PASSMAN. Practically none, but I want to know what the exact amount is.

Mr. PORTER. $90,000 in the past fiscal year.

Mr. PASSMAN. Could you break that figure down for the record?

(The information follows:)

Peace Corps advertising funding—Fiscal year 1971

Item	*Cost*
Production of television announcements	$39,000
Replication of television announcements	18,000
Production of radio announcements	7,000
Replication of radio announcements	2,000
Production of print materials	11,000
Replication of print materials	6,000
Fee for minority advertising agency	6,000
Purchase of reports on monitoring TV media placement	3,000
Travel	6,000
Total	98,000

Mr. PASSMAN. How do you get these people across the Nation to carry this message at the end of a news broadcast, "Join the Peace Corps"? What do you do, draft this and send it out to all the TV and radio stations in America?

Mr. PORTER. We contact them directly.

Mr. PASSMAN. By long distance.

Mr. PORTER. Sometimes personally.

Mr. PASSMAN. You have to send people out to do that?

Mr. PORTER. There are people in the field, part of our recruiters, who do a great deal of this.

Mr. PASSMAN. Do you add that into your advertising cost, because if you take half a dozen recruiters, send them down to a TV station 150 miles away to prevail upon those people to espouse the virtues of

the Peace Corps, that actually would be considered a part of it, would it not?

Mr. PORTER. That is not included in the $90,000.

Mr. PASSMAN. It is not included. So it could be a very substantial part then of the 34 percent, could it not, if you put all the little pieces together?

Mr. PORTER. I should not think so, sir, not a substantial part.

Mr. PASSMAN. It is not what you think, my dear friend; it is what is the record. Because you do not get all these TV and radio stations and newspapers to carry this without, let's say, persuasion, if not pressure. You do not have to advertise for the bilateral technical aid, you do not have to do it on the U.N. expanded technical aid program, and you do not do it on the others.

Mr. BLATCHFORD. They have a recruitment program also.

Mr. PASSMAN. I have never heard anything on any TV program yet about the bilateral technical aid program. I would like to get a general idea of how much money you people spend selling this package to the American people.

The only way I know to put it together is to ask these questions, because on some of the TV stations, if you pay for it, you would pay possibly $7,500 for one spot that may come over NBC, would you not?

Mr. BLATCHFORD. Yes; that is right, but we do not buy it.

Mr. PASSMAN. But there has to be some persuasion to ever get those people to give you choice time.

I would like to get into that because I think——

Mr. BLATCHFORD. They are delighted to do it.

Mr. PASSMAN. I think you are unintentionally selling the American people a bill of goods. If they understand the facts as I understand them, I do not think you would be able to sell it.

Mr. BLATCHFORD. We find——

COST PER VOLUNTEER

Mr. PASSMAN. This thing is sold to the American people on the basis of volunteers, but what does it cost per volunteer to put a man in the service and take him out for 1 year?

Mr. BUEHLER. $9,800.

Mr. PASSMAN. $9,800?

Mr. BUEHLER. But this takes into account all administrative costs.

Mr. PASSMAN. How much is paid to the Peace Corpsman while he is on duty and what does he get until he is separated? What does it average out per year?

Mr. BUEHLER. Approximately $2,500 in direct payments to the volunteer.

Mr. PASSMAN. The total that goes to the volunteer?

Mr. BUEHLER. Approximately $2,500 per year, sir.

Mr. PASSMAN. In addition to that, what subsidies does he get?

Mr. BUEHLER. I thought you meant in terms of direct payments. I included his living allowance in the $2,500.

Mr. PASSMAN. How about his travel allowance when he is out in Thailand, if he wants to jump over to Burma or Ceylon; does he get an allowance for that?

Mr. BUEHLER. No; only a reimbursable allowance.

Mr. PASSMAN. What is the difference, if it is reimbursable or whether you advance it or whether he draws it before he goes out? He does not pay it out of the $2,500?

Mr. BUEHLER. No, sir.

Mr. PASSMAN. What is he allowed for that foreign travel?

Mr. BUEHLER. Per year, that would be approximately $90 for job-related travel.

Mr. MCEWEN. Would the chairman yield?

Is that total transportation to get him out to Thailand?

Mr. BUEHLER. No, sir; he was talking about traveling while he is out there.

Mr. BLATCHFORD. International travel is $525.

Mr. PASSMAN. What do you mean "international"?

Mr. BUEHLER. That is to get him to the site. That is one way.

Mr. PASSMAN. If you have a Peace Corpsman serving in Thailand, what is the most distant point that he can travel to? Is he permitted to go to several countries?

Mr. BUEHLER. As part of his work or are you——

Mr. PASSMAN. He is given an allowance but he may, if he wants to, bum a ride or hitchhike through the country.

Mr. BLATCHFORD. He can take his leave time and his local travel allowance and travel wherever he wants to, as long as he gets back on the job——

Mr. PASSMAN. What is his leave time while there?

Mr. BUEHLER. He gets 2 days per month.

Mr. PASSMAN. Twenty-four days a year?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. What other? You have only covered a part of that.

Mr. BUEHLER. In the approximately $2,500, I included $216 per year for leave allowance.

Mr. PASSMAN. Their leave allowance is in addition to the $2,500?

Mr. BUEHLER. No. I am saying the leave allowance was included in that. He gets approximately $1,400 a year living allowance. There is approximately $940 put into a trust account here in the United States as a readjustment allowance for when he completes service and he gets $216 leave allowance per year. These are direct payments made to him.

Mr. PASSMAN. It really does not make any difference whether he gets it out there or when he comes home. I am interested in the total.

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. If it is $9,800, rather than continue the examination on that, I want a breakdown in the record of what this $9,800 is composed of.

Mr. BUEHLER. Yes, sir.

(The information follows:)

The listing below reflects the anticipated average cost per volunteer based on estimated fiscal year 1972 obligations. The direct costs cited are for an entire tour of service and the preselection costs included take into account a trainee attrition rate of 25 percent, that is, 75 of 100 individuals entering training ultimately serve overseas as volunteers. The total direct costs are converted to an annual cost by dividing them by 27.3 months (the average tour of service) and multiplying the quotient by 12 months.

The indirect costs are a prorata share of estimated fiscal year 1972 obligations for the items cited, based on the anticipated endyear strength of volunteers and trainees.

It should be noted that the listing indicates the "cost" of a volunteer and not payments made directly to him. Payments which might be considered comparable to a salary include: (1) a living allowance of approximately $1,400 per year for food, clothing, entertainment, toilet articles, et cetera, (2) a leave allowance of $216 per year for vacation purposes, (3) a readjustment allowance of $75 for each month of service which is deposited in a U.S. Treasury trust account and made available to the volunteer when he completes his service, and (4) a settling-in allowance of $160 to buy household items, such as cooking utensils, tableware, linens, et cetera, when he is first assigned to a site.

In instances where the volunteer incurs costs for job-related supplies or travel or has out-of-pocket medical expenses he is reimbursed by the Peace Corps.

Average cost per volunteer—fiscal year 1972

Direct costs	*Cost*
Preselection:	
Background investigation	$144
Medical exam	17
Travel	180
Training	4,344
Readjustment allowance	318
Total preselection	5,033
Postselection:	
Travel-international	1,050
Supplies and services	380
Vehicles	250
Housing	100
In-service training	86
Readjustment allowance	1,920
Living allowance	2,800
Settling-in allowance	160
Leave allowance	405
In-country travel	180
Medical care	1,170
Dependent support	170
Total postselection	8,671
Total direct cost for tour of service	13,674
Annual direct cost	6,004
Indirect costs:	
Research	24
Title III activities	21
School partnership program	13
Professional support	398
Administrative expenses	3,413
Annual indirect cost	3,869
Average annual cost	9,873

PEACE CORPS AND BALANCE OF PAYMENTS

Mr. PASSMAN. A lot of people are under the impression they serve for nothing. As far as I am concerned, $9,800 is still a lot of money.

This committee considers in the neighborhood of $9 billion in requests for foreign assistance. The grand total this year for foreign aid assistance is $13,517,628,000, if I remember the figure correctly.

It is not as good as a real New York play but it is something bordering on a good show in New York, to listen to the witnesses run for cov-

er when you ask them the question: What amount does your agency contribute to the balance-of-payments situation? All of them put in disclaimers. It follows, nevertheless, when we put it all together that we are sending out this year more than we bring home.

Of your asking price of $82.2 million, what contribution would you make to the balance-of-payments deficit?

Mr. BUEHLER. Approximately $20 million.

Mr. PASSMAN. At least you are forthright. I want to commend you. You are the first witness that has ever put it right on the line.

INSURANCE

While these men are out in the field do you carry a blanket insurance policy on them?

Mr. BUEHLER. They take out their own policy, sir.

Mr. PASSMAN. Is it a requirement that they take an insurance policy?

Mr. BUEHLER. Do you have reference to the——

Mr. PASSMAN. I am talking about life insurance. If one of them should go abroad and lose his life, is he covered with insurance so as to protect his family back home?

Mr. LELAND. There is a way for them to take out low-cost life insurance. All of their health costs are paid while in service, and after service these costs are paid by BEC.

Mr. PASSMAN. Give me the name; there are over 3,000 abbreviations for government agencies.

Mr. LELAND. Bureau of Employees Compensation. The Government insures itself so they are covered by Government insurance when they get back.

Mr. PASSMAN. Just health?

Mr. LELAND. Yes, sir. Not life insurance.

Mr. PASSMAN. It is not a prerequisite; they may or may not take life insurance?

Mr. LELAND. That is correct.

Mr. PASSMAN. Pakistan one time asked us to get the Peace Corpsmen out. Did we take them out?

Mr. BLATCHFORD. Yes, we did. Approximately 65——

Mr. PASSMAN. I believe they said, "Get these children out; we need men who know what they are doing." We are not getting along too well in that part of the world now.

DEMONSTRATION IN WASHINGTON

Have you had any trouble in the form of volunteers taking over more of the office buildings downtown? You knew they engaged in that activity. I guess it was last spring.

Mr. BLATCHFORD. Last spring. No, we have not.

Mr. PASSMAN. Isn't that remarkable, practically all of them were ready to go in the clergy and yet they returned, lost their religion as soon as they came back to the United States and took over these office buildings.

How many did they take over?

Mr. BLATCHFORD. They took over one office.

Mr. PASSMAN. How many Vietcong flags did they display?

Mr. BLATCHFORD. I think they displayed one.

Mr. PASSMAN. Did you voluntarily accept that behavior or were you forced to?

Mr. BLATCHFORD. We moved the Vietcong flag, and we negotiated with them and the following day they left.

Mr. PASSMAN. They did occupy the building?

Mr. BLATCHFORD. They occupied it for several hours.

Mr. PASSMAN. Until they got ready to leave. It would have been a mess in Washington if we had permitted that to happen here a few weeks ago, wouldn't it? They could really have stopped the Government from functioning, couldn't they?

Mr. BLATCHFORD. It didn't stop.

Mr. PASSMAN. It would have. If you had the number that we had here a few weeks ago, had they been permitted to perform in the same manner that the former Peace Corpsmen performed, they would have closed the Government down, wouldn't they?

Mr. BLATCHFORD. If all of them took over all of the buildings, yes.

Mr. PASSMAN. The Peace Corps——

Mr. BLATCHFORD. They took over only an office.

Mr. PASSMAN. How many were involved?

Mr. BLATCHFORD. Many thousands of people.

Mr. PASSMAN. How many Peace Corpsmen were involved in the takeover?

Mr. BLATCHFORD. About 25.

Mr. PASSMAN. That is what I said. Had the other people who came here been permitted to go through with their plans, with the terrific number that they had they could have taken over every building in Washington. It is too bad the same people who stopped these people a few weeks ago had not been there to stop these former Peace Corpsmen, it would have looked better for all of us.

Mr. BLATCHFORD. There was no readiness for that situation at that time. It happened in a number of different places.

Mr. PASSMAN. I knew that you would have some defense to offer. It was not very good behavior.

RECRUITING BY ELECTED OFFICIALS

I read in this Washington Post article that the Peace Corps was accused of playing partisan politics because Republican Senators up for reelection, were used to make professional appearances on radio and TV.

Would you like to comment on that?

Mr. BLATCHFORD. Yes; I would.

As a part of the public affairs policy, the Public Affairs Department requested a number of Senators, mayors, and Governors to participate in ceremonies marking the 10th anniversary of the Peace Corps and in recruiting the type of skilled people we need.

This comment in the paper is misleading. For example, in Massachusetts——

Mr. PASSMAN. What I just said is true?

Mr. BLATCHFORD. Yes, sir.

Mr. PASSMAN. Did you charge that to advertising?

Mr. BLATCHFORD. There was no cost to this. It was donated by the Senators, and the air time was donated by the station for free.

Mr. PASSMAN. Sometimes you just think you are receiving something for free but you find in the end it is very expensive. I wonder if that is not true with Peace Corps advertising?

Mr. BLATCHFORD. It is also true that the charge that was leveled against the Republicans who happened to be up for election, they failed to say that we also offered this to Democrats. We did it on a nonpartisan basis. We have a letter sent to Teddy Kennedy——

Mr. PASSMAN. Did you brag on the Democrats then or strictly on the Republicans?

Mr. BLATCHFORD. We said some nice things about Eugene McCarthy and——

Mr. PASSMAN. You didn't actually advocate their reelection, did you?

Mr. BLATCHFORD. I didn't advocate any partisan position or reelection. Certainly in these advertisements we did not either. In fact, I——

Mr. PASSMAN. You don't make these trips and charge them to the Peace Corps; you make it out of your own pockets now?

Mr. BLATCHFORD. I don't make political speeches.

Mr. PASSMAN. You stopped this?

Mr. BLATCHFORD. The one speech I gave on Lincoln's Birthday is the one you are referring to that could be called political. In the advertisements Democrats and Republicans in Massachusetts were asked to participate. We asked Teddy Kennedy, the Senator from Massachusetts, to participate. He did not participate. Ed Brooke, the other Senator, did participate. Both were invited, but the Republican accepted. That does not make it partisan in our view.

Mr. PASSMAN. You and I are not partisan.

Mr. BLATCHFORD. This is not a partisan campaign, that is correct.

Mr. PASSMAN. Do you run a campaign now?

Mr. BLATCHFORD. I am referring to the advertising campaign.

REDUCTION OF WASHINGTON STAFF

Mr. PASSMAN. A Washington Post article of December 1970 indicates the Peace Corps was going to cut its Washington staff by 10 percent. I assume that you finally found out that you were overstaffed and started making some cuts. Would that be a fair statement?

Mr. BLATCHFORD. That is a fair statement.

Mr. PASSMAN. Thank you very much.

In another area, where we were examining one branch of foreign aid, the witnesses said we have made a reduction, but we found out that they had made a reduction in direct hire but over in the contract hire, the total amount of personnel had increased.

Are you making a genuine cut here or are there personnel that you transferred to one of those other spigots that will be under your new agency?

Mr. BLATCHFORD. The 29-percent cut we referred to in the opening statement is the overall cut including all personnel.

Mr. PASSMAN. How do you propose to operate in fiscal year 1972? You have three pieces coming in to make your total, one before this committee, one before the committee that handles OEO funds, and one other committee. You are going to go before three appropriation subcommittees, are you not?

Mr. BLATCHFORD. That is correct.

Mr. PASSMAN. Is all of this going to be carried in one account or are you going to have three separate and distinct accounts carrying the three operations?

Mr. BUEHLER. It will be in one account. The funds will be separately identifiable.

Mr. BLATCHFORD. Separate books to identify that.

Mr. PASSMAN. It will all be carried in one account and all under the name of one agency; is that correct?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. Action is the name?

Mr. BLATCHFORD. Action; yes, sir.

Mr. PASSMAN. Are you going to apply the proper name to this outfit that you are testifying for today? Call it Action Overseas Branch?

Mr. BLATCHFORD. That is correct.

Mr. PASSMAN. You are going to do that?

Mr. BLATCHFORD. Yes, sir.

Mr. PASSMAN. If you ever get away from this phony name, it might not be as bad. It has no business being called the Peace Corps because in all probability you and I know some of them went into the Peace Corps to keep from fighting. Possibly they want peace. I think all of us want peace. They are not out there advocating peace; they are out there on a vacation and may be doing some good while they are there in a technical aid field.

Why you used that name I don't know.

Take the second part of it. Is it going to be known as Domestic Action?

Mr. BLATCHFORD. That is correct. There is a Domestic Operations and an International Operations of Action. The volunteers while they are serving overseas will continue to be called Peace Corpsmen in the various countries.

Mr. PASSMAN. Is that defined in the legislation or is it just going to be the name you are going to give them?

Mr. BLATCHFORD. Well, that is the name we are going to give them.

Mr. PASSMAN. Going to call them that like I call you General or Admiral?

Mr. BLATCHFORD. Yes, sir; since they already gained recognition as Peace Corps volunteers.

Mr. PASSMAN. I thought you would want to get away from recognition. It looks like you people would finally wake up and know that they are not popular.

You told us that this operation was changing course, that you were going to get in older people and married people, people with more experience getting in the field more or less like your bilateral technical aid. Are you still traveling in that direction?

Mr. BLATCHFORD. Today 70 percent of those going overseas——

Mr. PASSMAN. Are you going in that direction?

Mr. BLATCHFORD. Yes, sir.

Mr. PASSMAN. Then I will ask the next question. What percentage of these people in the Peace Corps came out of colleges, universities, or institutions where they had experience teaching or imparting knowledge as professionals?

PROFESSIONAL EXPERIENCE OF VOLUNTEERS

Mr. BLATCHFORD. Seventy percent of those going overseas today have professional experience, technical experience of the sort that you just mentioned.

Mr. PASSMAN. By degree or practice?

Mr. BLATCHFORD. By both practice and degree.

Mr. PASSMAN. What part would be by actual experience? Of the 70 percent, what part of them are you taking out of universities and colleges where they are presently teaching?

Mr. BLATCHFORD. We don't know the answer to that. I would say the great majority of those have experience, particularly those in a skill. When you get in many of the skills, biology, health, nursing, teaching, you must get to the degree, you must have some experience and some practice at that in the skilled area. I would say the vast majority have experience actually doing the job of that 72 percent.

SMITHSONIAN INSTITUTION PROGRAM

Mr. PASSMAN. In the fall the Peace Corps announced it was going to send hundreds of college-trained specialists abroad to help foreign countries with their environmental problems.

Is that true?

Mr. BLATCHFORD. That is correct.

Mr. PASSMAN. Why in the world would you want to get these people involved in this? This trend looks like this is going to engulf the Nation anyway.

Mr. BLATCHFORD. Countries——

Mr. PASSMAN. We need them here in this country.

Mr. BLATCHFORD. That is one of the purposes. The Smithsonian Institution is helping to recruit specialists who would serve overseas in 34 countries helping the nations preserve and protect their natural resources. As developing countries, they have an opportunity to do that and avoid some of the mistakes we have made here. They have been getting these technical people; 301 were sent over in this last year. The Smithsonian would utilize them and their experience when they come back.

Mr. PASSMAN. Isn't that great?

Mr. ROONEY. I am a regent of the Smithsonian Institution and groaning at this.

Mr. PASSMAN. Isn't that wonderful? Isn't that something that we admit is one of the most critical problems we have in America?

Mr. ROONEY. You could start right here in Rock Creek Park.

Mr. PASSMAN. Yes. Isn't it one of the most critical problems we have here in America and we don't even have trained personnel to take care of our own problems. Do we?

Mr. BLATCHFORD. That is true.

Mr. PASSMAN. Then why would you want to take these people and send them abroad when we don't know how we are going to solve the environmental problems here in our own country? If they really have any experience, which I question whether any of them had a week's experience—if they have, why don't you leave them here and help us serve to correct our own problems and at some subsequent date, after they have corrected the problems here in America, send them abroad?

I guess this is the most serious thing confronting America; is it not?

Mr. BLATCHFORD. As you know, Congressman, these fields are interrelated. They are not just in one country or another. They are all over the planet. These countries have asked for these specialists, and the specialists find that they can do something and contribute years of life to it and want to go and do it. It is our job to help supply these countries with the new Action agency which——

Mr. PASSMAN. We have a program to correct the same ills in our own country. If you really have competent personnel, don't you really believe our country comes first?

Mr. BLATCHFORD. I think I do and I think the President does also. One of the reasons for the Action Corps now is to——

Mr. PASSMAN. We don't have the personnel to correct our own problems. It is a great world. We are trying to train people now to work in this field, and they are not available; is that true?

Mr. BLATCHFORD. In some of the people are are sending it is true, with people in water pollution and air pollution. It is not true in terms of natural resources, forest conservation, and so forth.

Mr. PASSMAN. What do you mean by natural resources?

Mr. BLATCHFORD. For example, land management. We do have enough people in the land-park system to work on land management and reforestation and on control of natural resources. So we are able to send people to Chile, to Thailand, and places like that.

As far as air and water pollution, this is a new field in this country, and there are not enough trained people.

Mr. PASSMAN. All you are going to do is mess these people up. I remember Thailand. I remember that highway we built in Thailand. It started in Bangkok and went nowhere; only the water buffalos used it.

Here you are going on to these countries where the natural resources have not been disturbed and because you don't have the automobiles and large machines we have here, you are going to teach them how to take care of their natural resources? You better leave them here in America to help us straighten some of our problems out in the same area.

IMPOUNDMENT OF FUNDS

Did you have any of your funds impounded?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. Impounded officially?

Mr. BUEHLER. By the Office——

Mr. PASSMAN. I am not talking about reserving. Did you have any portion of your fiscal year 1971 allocation impounded where you could not use it in fiscal year 1971?

Mr. BUEHLER. Right, sir; $5 million.

Mr. PASSMAN. I am not talking about the pipeline.

Mr. BUEHLER. No, sir. I understand what you mean.

Mr. PASSMAN. Let me go back and ask the question this way:

You had all the money tht you wanted?

Mr. BLATCHFORD. All that we wanted.

TRANSITION CENTER PROGRAM

Mr. PASSMAN. That is the only answer I want. Thank you.

Another Washington Post article stated the Peace Corps plans to spend $180,000 for a pilot transition program to find urban-based jobs for volunteers recently returned from overseas.

You don't think these people could do a better job themselves than you could do for them? What do you propose to do with the $180,000?

Mr. BLATCHFORD. You just mentioned so many people with experience and dedication and training are needed back in this country. We agree, and we felt that the thousands coming back here who have been away for 2 years, sometimes 3, ought to have some kind of orientation as to what the problems are, what programs are available here and how they could continue to serve back home. For a small amount of orientation and training it would be of great benefit to the country to gather the services of the people when they came home and implement the third purpose of the Peace Corps Act.

Mr. PASSMAN. Don't you have the Manpower Administration under the executive branch of the Government? They get millions of dollars in appropriations to do this. Don't you have the agents set up in every State, in almost every town and city in the Union to do what you propose to do here?

Mr. BLATCHFORD. Not really; there are no agencies prepared to orient.

Mr. PASSMAN. No Peace Corps agencies, but go into my hometown of Monroe, La.; you have the Department of Labor, and I am sure it is true in your own hometown, where if you are available for a job, you go down and register with these people. They assist in locating a job for you. Are you familiar with that?

Mr. BLATCHFORD. Yes, sir.

Mr. PASSMAN. Why do you people have to get into this?

Mr. BLATCHFORD. Because we can't expect volunteers to go to every single town in the United States.

Mr. PASSMAN. Let him go back where he lives and to his own Department of Labor office.

Mr. BLATCHFORD. He is not just looking for a job. He wants to be able to apply the skills and the experience that he has gotten overseas at home.

Mr. PASSMAN. Are you telling me that this man couldn't state to the manager there and tell the man his skills? He is not looking for a job?

Mr. BLATCHFORD. He is not looking for a job.

Mr. PASSMAN. Is it a pension, handout, or dole?

Mr. BLATCHFORD. What is the kind of work that would be most appropriate for his skills and——

Mr. PASSMAN. Who is going to work that out?

Mr. BLATCHFORD. We have a tremendous amount of information on mayors, Governors, model city programs, and others who need the skills that he have developed in urban planning and teaching and so forth. School districts come and ask for the volunteers.

Mr. PASSMAN. Your $180,000——

Mr. BLATCHFORD. By the way, we would not need to continue this program now that we have a combined Action Corps. We will be phasing it out in favor of the direct recruitment program of ex-volunteers in the Domestic Corps.

Mr. PASSMAN. That had not been proposed at the time this article was released?

Mr. BLATCHFORD. No.

Mr. PASSMAN. You don't need the $180,000?

Mr. BUEHLER. No; the funds have already been obligated.

Mr. PASSMAN. Isn't it strange how you justified it and now you say that you don't need it.

Mr. BLATCHFORD. I think it was a very helpful program, and evaluation showed it was full——

Mr. PASSMAN. Who did you place in jobs or how many brochures did you send out explaining the knowledge of these people who were overseas?

Mr. BLATCHFORD. Some 350 Peace Corps, ex-Peace Corps volunteers participated in sessions which led them to scholarships, jobs and fellowships in urban work in this country. I can furnish for the record the exact number placed in jobs, but it was over 350 who participated.

(The information follows:)

Four months after the end of each cycle the graduates of the program are sent a fellow-up questionnaire. Out of the 207 who completed all five cycles, questionnaires have been sent to 122. The 92 responses received to date show that 84 percent have been employed; 45 of those ecployed attribute their jobs to the benefits of this program. Looking at the overall program, 57 percent of the graduates felt that the porgram had been very valuable to them and 39 percent thought it had been somewhat valuable.

Mr. PASSMAN. I shall not object to what you put in the record but I will be highly suspicious of its content because you have not put your best foot forward.

None of the people associated with you in the past and present could ever show me that we are not on the minus side of this outfit and not on the plus side, forgetting all about what this thing has cost us.

ENVIRONMENTAL PROGRAMS

These are very elementary programs that you are talking about or have talked about. You have spent $180,000 on this pilot program. Have you sent any of these environmental experts abroad?

Mr. BLATCHFORD. 300, approximately.

Mr. PASSMAN. What countries?

Mr. BLATCHFORD. Thirty-four countries.

Mr. PASSMAN. Did they have special training?

Mr. BLATCHFORD. They have the same training anyone else gets in language and culture studies and so forth.

Mr. PASSMAN. Why didn't you wait until they get that?

Mr. BLATCHFORD. No, they already come as specialists, M.S.'s, Ph. D.'s in that field.

Mr. PASSMAN. Didn't you imply out of the 72 percent of people going abroad that had degrees, only part of them came out of universities and colleges where they had the training?

Mr. BLATCHFORD. I said the great majority of them have both education degrees and experience.

Mr. PASSMAN. You never did break it apart. I will ask that question of the numbers.

You sent abroad approximately 300. Before this gets any bigger, place in the record, if you will, their ages, where you recruited them.

Mr. BLATCHFORD. Yes, sir.

Mr. PASSMAN. If they had any experience, how much, and with what institutions.

Mr. BLATCHFORD. Right.

Mr. ROONEY. At this point, tell us the total cost to the taxpayers of the 300 people.

Mr. PASSMAN. How much is that?

Mr. ROONEY. Plus backstoppers.

Mr. BLATCHFORD. Yes, sir. The total cost of the environmental program is estimated to be approximately $3 million a year.

(The information follows:)

ENVIRONMENTAL SKILLS RECRUITED IN CONJUNCTION WITH THE SMITHSONIAN INSTITUTION

_____ ____ 32 yrs.

DVM & BS, U. of Calif. at Davis.
5 yrs. Assoc. Research Scientist and Director of the Primate Research Colony for the San Diego Zoological Society.
Directed project on experimental breeding of non-human primates.
Previous exp. as summer asst. in Small Animal Clinic.
1 yr. as lab asst. for mastitus research project.
2 months in Brazil surveying commerce in non-human primates.
2 months in Rio Muni studying acquisition of monkeys.

_____ 28 yrs.

PhD Zoology, Texas A&M.
MS & BS Biology, Marshall U.
1½ yrs. instructor, vet. medicine, Texas A&M.
4 yrs. Teaching Asst., zoology, Texas & Marshall.
Research on parasites of marine fishes, biology of snails.
Wife has MS Entomology, Texas A&M (expected 8/71);
BS Zoology, Marshall U.
Research on ectoparasitic anthropods.

_____ 27 yrs.

PhD with specialization in Structure, Economic, Stratigraphy and Geomorphology.
MS Economic Geology and Structural Geology, U. of Tennessee.
BS Geology, U. of Illinois.
3 summers exploratory geological work in offshore drilling.
2 yrs. Teaching Asst.
1 yr. Asst. Prof. of Physical Geology.
Wife has MS in Zoology from Washington State U.,
2 yrs. Teaching Asst.

_____ 30 yrs.
PhD Meat and Animal Science, U. Wisconsin.
MS Animal Breeding, Colorado State U.
BS Livestock Production, Cornell U.
Graduate work in zoology and meteorology.
Research spec., animal science, U. Wisconsin (reproductive physiology).
Part-time work in tree surgery, poultry, dairy farm, agricultural statistics.
Interested in environmental effects on reproduction of domestic animals, animal husbandry.

_____ 41 yrs.
PhD Zoology, U. Wyoming.
MS Wildlife Management, U. Idaho.
Assoc. Prof. Entomology-Zoology Dept., South Dakota State U. 8 yrs.
Interested in helminths, control and prevention of parasitic diseases.
Wife Yvonne has PhD Animal Science, MS Zoology, U. Wyoming.
Prof. Animal Science, South Dakota State U. 8 yrs.
Director, Pesticides Lab., South Dakota.
Interested in effects of pesticides on wildlife.

_____ 26 yrs.
PhD Zoology, U. California (expected 6/71).
MA Zoology, U. Missouri.
BS Zoology, U. Maryland.
Teaching Asst. and Museum Technician, U. California.
Research on physiology and ecology of small mammals.
Wife is lab tech. in virology.

_____ 29 yrs.
PhD Zoology, U. Rhode Island (expected 6/71).
MS Zoology, Michigan State U.
BA Psychology, Aquinas College.
Research on behavior and ecology of small mammals.
1½ yrs. Lab. Tech., Rhode Island Hosp.
Graduate Teaching Asst., U. Rhode Island.
2 yrs. instructor of Biology, St. John's U.
1 summer Naturalist, Mich. Dept. of Parks.

_____ 28 yrs.
PhD & MS Zoology, U. Maryland (PhD expected 8/71).
BS Zoology, U. Wisconsin.
2 yrs. Smithsonian Research Assoc. in Ceylon, working on primates and their predators.
2½ yrs. Teaching Asst., U. Maryland.
2 yrs. Research Asst., U. Maryland and Smithsonian, working on mammal collections, field research on marmosets in Panama, lab research on mammals at National Zoo.

_____ 28 yrs.
PhD Botany, U. Montana.
BS Biology, Wisconsin State U.
1 yr. Botany lab course coordinator.
3 months research on biological effects of fluoride.
1 yr. graduate Teaching Asst. in biology.
Postdoctoral work on influence of nitrogen compounds in aquatic ecosystem.

_____ 27 yrs.
PhD and MS Zoology, U. Hawaii.
BS Zoology, U. Puerto Rico.
1 yr. Inst. of Ecology, U. Puerto Rico.
Rsch. Asst., Eniwetok Mar. Bio. Lab., 1 summer.
Grad. Teaching Asst., U. Hawaii and U. Puerto Rico.
Research on ecology, physiology and behavior of marine invertebrates.
Fluent in Spanish.

_____ 35 yrs.
PhD Physiology, MS Marine Biology, U. Miami.
2 yrs. instructor at U. Miami, supervised lab program for embryology and physiology.
3 summers at Woods Hole Marine Biology project.
'58-'60 Medical Lab Technician, U. S. Army.
6 yrs. Teaching and Research Asst., U. Miami.
Best qualified for freshwater or marine ecology or pollution studies.
Also good background in ornithology.
Wife has BA English and 6 yrs. exp. as secretary.

_____ 34 yrs.
PhD Biology, Stanford.
MS Physiology, U. Illinois.
BS Zoology, U. Chicago.
2 yrs. post-doctoral work at Woods Hole on ecology of power plant effluent. Interested in ecological physiology, marine aquaculture, reef ecology and aquatic pollution.
Wife has BA Education, 5 yrs. teaching pre-school children.

_____ 26 yrs.
PhD Engineering.
Consultant for Environmental Eng. Res. Lab since Oct. '70 at NYU working with air pollution problems.
Academic background directed toward aeronautics, but considerable study pollution control equipment and research on flow of gas and liquids with suspended solid particles.
Preparation in fluid mechanics and applied math.
Wife secretary in Social Services section of hospital.

_____ 23 yrs.
MS Limnology, Michigan St.
BS Aquatic Biology, Mich. St.
1½ yrs. exp. as graduate research asst. on Lake Erie ecology study.

_____ 24 yrs.
MS Wildlife Mgt., Humbolt St. College (expected 6/71).
BS Biological Sciences, Cal. State Poly Tech. Inst.
Wife has BA English teaching, Humbolt St. College.

_____ 27 yrs.
BS Wildlife & Range Mgt., Humbolt St. College.
2 summers exper. as range technician Bureau of Land Mgt.
Interested in Africa.
Wife is RN with 2 yrs. gen. nursing exp.

_____ 28 yrs.
BS Biology plus 1½ yrs. graduate work in Marine Biology, Univ. Cal. at Santa Barbara, 1 summer exp. as marine biology technician.
Wife has BS marine zoology plus 1½ yr. grad. work in marine biology.

_____ 25 yrs.
MS Wildlife Ecology, U. Wisconsin.
BS Forestry, Syracuse U.
1½ yrs. experience as wildlife biologist on waterfowl ecology study for Bureau of Sport Fisheries & Wildlife (Dept. of Interior).

_____ 27 yrs.
MS Forest Management, Oregon St.
BS Forestry, Utah U.
Wife has MS in education with specialty in reading.

_____ 23 yrs.
MS Park Mgt. & outdoor recr., U. Illinois.
BS Forestry, S. Illinois U.

_____ 30 yrs.
MS & BS Zoology, U. California.
Research exp. on several rsch. projects dealing with animal behavior and ecology.

_____ 30 yrs.
MS Forest Resources & Wildlife Mgt., U. Minn.
BS Forest Mgmt. U. Minnesota.
5 yrs. development and administration exp. in wildlife and fish resources, Everglades Nat. Park.
Wife has BS in Home Economics.

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_____ 26 yrs.
MS Recreation, U. of Illinois.
BS Community Recreation Admin., Springfield Coll.
Peace Corps Volunteer community development and recreation, Marshall Island.
1968-70 Swimming Instructor, U. of Illinois.
1967-68, also Swimming Instructor town of Hartford, Vermont during summers.
Interest Park and Recreation planning, design and administration.

_____ _____ 23 yrs.
MS Fish and Wildlife, Michigan State.
BS Fish and Wildlife, Michigan State.
Research Asst. doing field and lab research on fish populations in Lake Erie for Mich. State U.
Job interest: Fish Biologist, Aquatic Biologist, or Ecologist.

_____ 26 yrs.
MS Botany, U. Illinois.
BS Philosophy, U. Illinois.
2 yrs. Teaching Asst. Botany.
1 yr. Research Asst. Microbiology (enzyme studies of bacteriophage).
1 yr. junior high school science teacher.
3 yrs. French.
Wife has B.Arch., 1 yr. as draftsman.

_____ 27 yrs.
PhD Entomology, U. of Illinois (expected).
MS Entomology, Clemson Univ.
BS Biology, C.C.N.Y.
2 yrs. grad. Teaching Asst., U. Illinois.
Wife BS Biology plus 1 yr. teaching in science and math.

_____ 24 yrs.
MS (expected 8/71) BS Biology, specializing water quality control, Bowling Green St. U.

_____ 35 yrs.
MA Anthropology, UCLA (expected 6/71).
BA Chemistry, Marian College.
6 yrs. chemist for industry (analyses of materials for steel foundry) and university (analyses of rocks and meteorites).
Peace Corps science teacher with wife in Ethiopia, 1963-64.
Wife has MA and PhD (expected 6/71) in ethnomusicology from UCLA. Interested in classification and analysis of music in E. Africa and S.E. Asia.

_____ 31 yrs.
BS Economics, Utah St.
8 yrs. experience in water resource planning and mgt. and environmental economics.
Graduate Fellowship, Vanderbilt 69-70, in economic planning and development with emphasis on S. America.
Program Manager, Environmental Quality Branch, Idaho Water Resource Board.
Directed water and sewerage study in Idaho to determine feasibility of improving water supplies in 150 rural communities.
Wife is RN.

_____ 23 yrs.
MS Environmental Science, Drexel U. (expected 8/71).
BS Physics, Dickinson College.
1 summer in local study group on environmental problems.
Interested in natural resources management, water quality, waste disposal and pollution control.

_____ 34 yrs.
MS Environmental Science, Washington State U.
BS Soil & Water Science, U. of Calif.
BA English, Denver U.
Peace Corps/Nigeria, Instructor of English and arithmetic.
2 yrs. Senior Experimental Aide, Washington State U., Soils Dept. (stream-water pollution studies).
16 months irrigation engineer for construction co.
Interested in water pollution, waste management and soil erosion control.
Wife has BA in speech, interested in social work.

_____ 67 yrs.
PhD Biology/Ecology, U. Szeged, Hungary.
34 yrs. exp. as high school and college teacher of ecology, biology and the Hungarian language.
Interested in air and water pollution, rabies control, irrigation and public health.

_____ 26 yrs.
MA Biology, West Chester State Coll.(expected 12/71).
BS Zoology, Pennsylvania State U.
1 yr. Teaching Asst., biology, West Chester.
2½ yrs. Sanitarian, Phila. Dept. of Health - health inspections, rat control.
Thesis on ecology of Norway rats.

_____ 32 yrs.
PhD Zoology, U. Kansas (expected 8/71).
MS & BA Zoology, Southern Illinois U.
2 yrs. Asst. Prof. Biology, St. Benedict's Coll.
1 summer Field Leader, IBP Grassland Biome study.
1 summer Park Ranger-Naturalist, Wind Cave National Park.
5 yrs. graduate teaching & research Asst. with field work in Nicaragua and Costa Rica.
Thesis on ecology and zoogeography of mammals of Black Hills.
Wife has exp. as research asst. in entomology.

_____ 39 yrs.

PhD Zoology, U. of Wisconsin, 1962.
MS Zoology, U. of Michigan.
BA Biology, Union College.
6 yrs. Asst. Prof. Zoology, U. Rhode Island.
2 yrs. Asst. Prof. Zoology, Dalhousie U.
Research exp. in Norway, Bahamas, Cornell U.
Interested in behavior and population ecology of tropical birds and mammals, conservation of endangered animal species.
Wife has MS Art, 4 yrs. Asst. Prof. Art at Mt. St. Joseph College.

_____ 29 yrs.

PhD, MS Zoology, U. Maryland.
BS Biology, Allegheny College.
1 yr. junior inst., Zoology, U. Maryland.
6 yrs. Teaching Inst., Zoology, U. Maryland.
Doctoral research on rodent ecology, interested in ecology and animal behavior.

_____ 23 yrs.

BS Zoology, U. California, Davis.
Graduate work in ecology, Cornell U.
2 yrs. Graduate Teaching Asst., biology, Cornell.
1 yr. Research Asst., animal census, U. California.
Research exp. on pesticides in fish and birds.
Interested in ecological research related to human needs.

_____ 25 yrs.

MS Ecology, BS Zoology, U. Tennessee (MS expected 8/71).
2 yrs. Teaching Asst., Zoology, Tenn.
1 yr. Trainee, Radiation Biology Dept., Tenn.
1 summer Museum Aide, plankton classification, National Museum.
Thesis on distribution of freshwater fishes.
Interested in aquatic ecology, fisheries, watershed mgt. and pollution control.
Wife has BS Zoology and MS Ecology (expected 9/71), interested in fisheries.

_____ 33 yrs.
PhD Environmental Biology, U. Rhode Island.
MS Marine Biology, U. Miami.
BA Biology, State U. of New York.
3 yrs. Teaching Asst., Miami and Rhode Island.
1 summer crew on research vessel.
1 summer Research Asst., ichthyology, Virginia Inst. of Marine Science.
Interested in physiological ecology of reptiles, birds and mammals, and marine biology.

_____ 31 yrs.
PhD, MS Zoology, U. Wyoming (expect PhD 5/71).
BS Biology, Sul Ross State College.
3 yrs. Graduate Teaching Asst. in biology and geology.
1 yr. high school biology teacher.
½ yr. laboratory animal keeper.
½ yr. surveyor's assistant.
Interested in biological effects of trace elements, ecology of birds and mammals.

_____ 50 yrs.
PhD Plant Ecology, MA Science Ed, BS General Science, Ohio State U.
4 yrs. Asst. Prof. Biology, Allegheny College.
1 yr. Asst. Prof. Biology, Edinboro State Coll.
6 yrs. primary and secondary school science teacher.
Interested in forest vegetation and vegetational analyses.

_____ 27 yrs.
PhD Ecology, Duke U. (expected 6/71).
MS Botany, Rutgers.
BA Biology, U. Penn.
5 yrs. Research Asst. Ecology, Academy of Natural Science, Duke U.
Good French, strong interest in tropical ecosystems.
Wife 5 yrs. executive secretarial exp.
Fluent in French and Spanish.

_____ 23 yrs.
MA Biology, E. Carolina U. (expected 9/71).
BS Biology (education), E. Carolina U.
1 yr. Grad. Rsch. Asst., algal metabolism study.
Interested in estuarine ecology and biochemistry.

_____ 41 yrs.
PhD, MS, BS Soils & Chemistry, U. of Wisconsin.
2 yrs. forest soils research for U.S. Forestry Service.
10 yrs. Professor of soils and geology at U. Montana.
Prefers a univ. teaching assignment.
Wife BS Home Economics Education.
2 yrs. Home Ec. teaching.
2 yrs. Adult Ed. with Indian women.

_____ 57 yrs.
MS Soil Microbiology, Utah State U. 1940.
BA Botany, Washington U.
22 yrs. plant pathologist - soil microbiologist,
Texas Agr. Experimental Station.
1 yr. Fulbright Visiting Prof. of Biology, U. of
Honduras.
Fluent in Spanish.
Interested in demographic problems and tropical
ecology.

_____ 29 yrs.
PhD Zoology, U. of British Columbia.
MA, BA Biology, Calif. State College.
4 yrs. Teaching Asst., Zoology, British Columbia
and Calif.
1 yr. lecturer in general biology, Calif.
4 yrs. Lab Tech., chemical company.
Thesis on ecology and evolution of island rodents.
Interested in management and conservation of animals.

_____ 31 yrs.
PhD Biology, U. Southern Calif.
MA Biology, U. of the Pacific.
BA Biology, California Polytechnic College.
4 yrs. Assoc. Prof. of Biology and Marine Lab. Dir., Humboldt State College.
3 yrs. Asst. Prof. of Zoology and Asst. Dir. of Pacific Marine Station, U. Pacific.
Teaching and research exp. with marine invertebrates, also interested in conservation.

_____ 22 yrs.
MA Zoology, U. Texas.
BS Conservation, U. Michigan.
1 summer collecting and photographing marine life in Bahamas.
Interested in marine biology, population genetics, fisheries and ecology.
Research exp. in population genetics of fishes.

_____ 29 yrs.
PhD Marine Science, Virginia Institute of Marine Science (expected 1/72).
MS Zoology, Mich. State U.
BA Biology, Kalamazoo College.
Graduate Research Asst., ichthyology, Virginia.
Teaching Asst., Biology, Michigan.
Research exp. in biology and ecology of fishes.
Wife is Marine Lab Tech., fluent in Spanish.

_____ 25 yrs.
MS Geography.
BS Biology, Eastern Michigan U.
5 summers surveyor for Road Commission.
1 summer planimeter operator for agricultural stabilization committee.
Interested in resource management, conservation and ornithology.

_____ 23 yrs.
MS Zoology, U. Wyoming (expected 1/72).
BS Zoology, Long Beach St. College.
2 yrs. Supervisory Ranger Naturalist at Yosemite Park.
Interested in developing, administering and interpreting park areas.

_____ 33 yrs.
MS Zoology, Brigham Young U.
BS Chemistry, U. Idaho.
5½ yrs. laboratory work in chemistry.
1½ yrs. graduate Teaching Asst., geology, physiology and anatomy.
Interested in using experience in biology and geology as a park naturalist.

_____ 26 yrs.
MS Biology, Georgetown U.
BA Biology, Whitman College.
2 yrs. secondary school teacher (biology).
1 yr. intern teacher at secondary school.
2 yrs. science teacher, Peace Corps/Ghana.
Interested in water quality or work as park naturalist or teacher.
Wife has BS Education, 4 yrs. primary school teacher, 2 yrs. Public Health instructor, Peace Corps in Colombia.

_____ 33 yrs.
PhD Chemistry, Michigan State U.
BA Chemistry, Ohio Wesleyan.
Recently founded company, Environmental Dynamics, to develop environmental programs and proposals.
3 yrs. Asst. Prof., U. of Massachusetts.
3 yrs. Lab. Supvr., Dow Corning Corp.
Exp. in coordinating studies of water quality and solid wastes management, recycling materials.
Wife has graduate work in cultural anthropology, teaching experience.

_____ 29 yrs.
MS Environmental Engineering.
BS Mechanics Engineering, Drexel U.
10 yrs. planning engineer at Gen. Electric.
1 yr. manager of environ. rsch. studies.
Interested in air and water pollution, teaching.

_____. 26 yrs.
BS Wildlife Management, Humboldt State Coll.
Wife has BS in occupational therapy plus 2 yrs of occ. therapy exp.

_____ 31 yrs.
PhD, MS Zoology, Oregon State
BS Biology, N. Ill. Univ.
5 yrs. instructor of Biology at Centralia College.
Exp. and academic background in natural resources and ecology.
Wife RN with 8 yrs. exp. in gen. nursing.

_____ 32 yrs.
MS Outdoor Recreation, U. Ill. (expected 8/71).
BA Recreation, San Jose St. College.
4 yrs. seasonal aide, fishing survey.
1 yr. research on nat. resources & human behavior.
Counselor at children's summer camps.
Wife has exp. as summer camp counselor.

_____ 26 yrs.
MS Parasitology (public health), U. of N. Carolina.
BA Biology, San Francisco State College.
1 yr. lab. tech., U. North Carolina Pathology Dept., developing blood clotting tests for possible implant materials.
2 yrs. PCV in Sierra Leone, teaching health, biology, English.

_____ 62 yrs.
BS Forestry plus 1 yr. grad. work in Forestry.
6 yrs. timber management US Forest Service.
11 yrs. Forest land management with a paper co.
12 yrs. Manager of pulpwood process for paper co.
Wife RN with 20 yrs. gen. nursing exp.

_____ 50 yrs.
MS Economic Zoology (Fish & Wildlife), Iowa State.
BS Forestry.
14 yrs. fish research exp. with Bureau of Commercial Fisheries (Dept. of Int.) including 3 yrs. consultant work in Pakistan and 1 yr. consultant work in Philippines.
Wife BS in Food & Nutrition with 3 yrs. exp. as home economics agent.

_____ 23 yrs.
MA, BA Zoology, U. Texas.
Biology teaching assistant 1969-70 U. of Texas.
'67-69 lab asst. in genetics at U. of Texas.
Primarily interested in fish behavior and ecology.

_____ 40 yrs.
BS Physics, Tufts Univ.
7 yrs. high level exp. in remote sensing rsch. on oceanographic and coastal studies. Founded own company to apply remote sensing techniques to all types of environmental problems.

_____ 36 yrs.
BS Forestry, Oregon State U.
4 yrs. with USFS as Resource Asst., planning and performance and evaluation for watershed, recreation, wildlife lands, reforestration, timber land improvement.
1 yr. with USFS as Presale Forester.
4 yrs. as forester in planning and performance of pre-sale, contract administrator, reforestration and erosion control.
Wife has BS in History.

_____ 36 yrs.
MA and BA Geography, UCLA.
4 yrs. Recreation Resource Specialist, U.S. Dept. Interior (administrative work on wild and scenic rivers system).
1 yr. Park Planner, Nat. Park Serv. (drawing up master plans for nat. parks in Wash., D. C. area).
1 yr. Staff cartographer, Geog. Dept., UCLA.
Wife has MS in teaching English as 2nd lang., Georgetown U.

_____ 32 yrs.
MS Ecology, Oregon State.
BS Botany, Oregon State.
5 yrs. develop outdoor recreation and natural resources programs for Kansas City Govt.
4 yrs. research tech., crop research div., U.S. Dept. of Agr.
Wife holds AA degree in education and home economics.

_____ 58 yrs.
PhD Microbiology, Penn. State.
MS Botany, Penn. State.
23 yrs. plus, as senior microbiologist for Army Dept.
Extensive research exp. in biodegradation.

_____ 24 yrs.
MS Conservation Education (expected 1972).
BS English, Utah State U.
Currently Public Relations Aide at Bear River Bird Refuge, Utah.
1 yr. 8th grade English teacher.
Interested in preservation of endangered animal species, especially large mammals.

_____ 32 yrs.

AB Biology, Amherst.
2 semesters Secondary Science Ed and El. Science Ed.
3 yrs. Director of New Canaan Nature Center Assoc., administering programs of natural science, horticulture and conservation ed.
6 yrs. with Mass. Audubon Society as Dir. of Wachusett Meadows administering programs of land management and conservation education.
Wife completing MS in Biology Education and 3 yrs. with New Canaan Nature Center doing natural history and conservation education, exhibits, newsletter.

_____ 35 yrs.

BS Wildlife Mgt., Colorado St.
8 yrs. as district manager of 200,000 acre forest land for US Forest Service.

_____ 25 yrs.

BS Zoology, U. Nebraska.
Additional coursework toward MS.
Wildlife Mgt., Utah State U.
Wife has BS English, U. Nebraska, and has begun coursework in sec. ed.

_____ 65 yrs.

PhD and MS Biology, U. of Nebraska.
BA Science Ed., State Teachers Col., Nebraska.
4 yrs. Prof. of Range Science, U. Nebraska.
2 yrs. Head of Range Mgt. Dept., W. Va. U.
13 yrs. Prof. and Chairman, Div. of Plan Science, U. Nevada (2 yrs. sabbat., Egerton College, Kenya).
4 yrs. Assoc. Prof. Agronomy and Range Mgt., U. Nevada.
7 yrs. Range Ecologist, U.S. Forest Service.
Wife MA Music and 25 yrs. piano teacher.

_____ 35 yrs.
MS Botany.
BS Biology, Pennsylvania State U.
Graduate work in microbiology, history of science and wildlife mgt.
8 months Park Ranger in Haaleakala Nat. Park, Hawaii.
10 months limnology research asst., U. of Wisconsin.
1 yr. plant pathology research asst., U. Hawaii.
2 yrs. research assoc. analyzing biology.
Wife has BS Zoology from Penn. State.

_____ 23 yrs.
MS Wildlife Mgt., U. of Maine
BS Wildlife Sc., Cornell.
2 yrs. graduate asst. aiding professors in preparing labs and classes; graduate asst. in Game Mgt. and Game Identification courses.
1 summer as crew leader of 5 doing woodcock and grouse capturing and banding.
Wife has BS Conservation Education, Cornell.
1 yr. teaching high school science and
1 summer as recreation leader at a state park.

_____ 27 yrs.
MA Biology, Mount Holyoke.
BA Biology, Ripon College.
Courses in Ecology, Marine Biology.
2 yrs. teaching exp. as PCV in Lesotho.
1 summer doing survey of distribution and behavior of leeches.
Research asst. in behavioral and communication studies in Queen Butterfly.
Thesis on comparative survey of the macroscopic pond fauna.

_____ 27 yrs.
MS Candidate, Wildlife Biol., U. Cal/Berkeley.
MS Animal Breeding/Genetics, Cornell U.
BA Biology, Earlham College.
2 yrs. computer programmer.
Kept and exhibited horses since 1958.
Interested in wildlife research; effects of human intervention on behavior, preservation of endangered species.
Husband has BS in religion and 3 yrs. teaching exp.

_____ 27 yrs.
MA Zoology, U. Calif. at Davis.
BS Wildlife Mgt. and Conservation, U. Wyoming.
3 yrs. Grad. Teaching Asst., Zoology, Calif.
1½ yrs. Research Asst., fish classification at U. Wyoming museum.
1 summer Range Aide, Forest Service experimental station.
1 summer mapping land ownership and game distribution, Wyoming Game and Fish Comm.
1 summer trail crewman, Grand Teton Nat. Park.

_____ 27 yrs
MS Zoology, Brigham Young U.
BS Biology, Wisconsin State U.
Working on PhD Zoology, U. Wyoming (expected '73).
2 yrs. Teaching Asst., Zoology, Brigham Young.
Research on golden eagle, coyote ecology.
Interested in predator-prey relationships, wildlife ecology.
Wife has BS Biology.

_____ 25 yrs.
MS and BS Wildlife Mgt., U. Minnesota.
1 yr. Senior Lab Tech., ecology of seals in Antarctica.
3 yrs. part-time asst. biology and mgmt. of deer, Minnesota Fish and Game Division.
Interested in biology and preservation of large mammals.

_____ 46 yrs.
BA Zoology, Humboldt State College.
Coursework in fisheries, U. Washington.
10 yrs. fishery biologist, National Marine Fisheries Service.
6 yrs. Fish and Game Asst., California Fish and Game Dept.
SCUBA diver, fluent in Japanese.
Interested in marine fishes and invertebrates of tropical Pacific.

_____ 23 yrs.
MS, BS Fisheries biology, Michigan State U. (MS expected 8/71).
2 yrs. Rsch. Asst., zooplankton study, Mich.
2 summers Soil Scientist, Michigan.
Thesis on variability of zooplankton populations in Lake Erie.
Interested in fisheries and marine invertebrates.

_____ 25 yrs.
MS Zoology, Clemson U.
BS Entomology, U. Delaware.
3 yrs. medical entomologist, disease vector surveillance for USAF in Far East.

_____ 30 yrs.
PhD Biology, U. of Miss. (expected 8/71).
BA Biology, Tarkio College.
1 yr. primary school principal.
5 yrs. secondary school principal and teacher (biology).
2½ yrs. grad. teaching asst. and inst. of entomology, Mississippi.
Doctoral research on bee flies, interested in biological control of insect pests.
Wife has MEd, 5 yrs. secondary school teacher (English and speech).

_____ 33 yrs.

PhD Wildlife Science, Texas A&M.
MS Vertebrate Zoology, Louisiana St. U.
BS Industrial Mgt., Carnegie-Mellon U.
1 yr. Asst. Prof. Biology, Prairie View A&M Coll.
5 yrs. teaching asst., Louisiana and Texas.
1 summer study at Organization for Tropical Studies in Costa Rica.
Interested in wildlife biology, especially bats.

_____ 37 yrs.

PhD, MS Zoology, U. Florida (PhD expected 8/71).
BS Applied Science, Richmond Professional Inst.
1 yr. inst. of biology, Santa Fe Jr. College.
1 yr. electron microscopy technician, U. of Florida.
1 yr. grad. teaching asst., biology, U. Florida.
1 yr. grad. rsch. asst., paleontology, U. Florida.
2/3 yr. curator, Pacific bird survey, Smithsonian Institution.
Dissertation on avian spermatozoa.
Interested in ecology and natural history of birds.
Wife is RN with MS (pediatrics) U. Florida and exp. in endocrinology.

_____ 34 yrs.

PhD Zoology, U. Oklahoma 1970.
MA, BA Biology, San Francisco State College.
4 months Zoologist, San Francisco Zoo.
4 yrs. Teaching Asst., Zoology, Oklahoma and San Francisco.
Interested in ecology of tropical reptiles and amphibians.

_____ 30 yrs.

PhD Biology, U. California.
MA Biology, U. Colorado.
BA Biology, Duke U.
2 yrs. Asst. Prof. Biology, Calif. St. Polytech. Coll.
4 yrs. Teaching and Rsch. Asst., U. California.
2 yrs. Teaching Asst., U. Colorado.
2 summers ecological study with Organization for Tropical Studies in Costa Rica.
Interested in ecology, especially that of lizards.

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_____ 35 yrs.
PhD, MA Zoology, U. California.
BA Zoology, U. Florida.
1 yr. Asst. Prof., Zoology, U. Florida.
1 yr. Asst. Curator of Herpetology, Florida St. Museum.
Postdoctoral Fellow at U. Florida and Washington U.
1½ yrs. research in Mexico, 1 yr. in Panama.
Interested in ecology of neotroprical reptiles, currently working on endangered crocodilian species.
Wife has BA in anthropology, training in arts.

_____ 26 yrs.
MS, BS Biology, California Polytech. (MS expected 6/71).
Graduate study in marine biology, U. Calif.
U.S. Dept. of HEW Trainee in air pollution.
3 yrs. instructor of life sciences at private school.
Interested in environmental studies, marine biology, conservation education.
Wife has BS Home Economics and teaching exp.

_____ 39 yrs.
PhD Zoology, U. of California at Berkeley.
MS Zoology, Louisiana State.
BS Biology, Virginia Polytechnic Institute.
2 yrs. Assistant Prof., Biology, Oberlin College.
1 yr. Assistant Prof., Zoology, U. of Washington.
1 yr. Asst. Prof., Zoology, San Diego State College.
2 yrs. field work on birds in Latin America.
Interested in ornithology, esp. behavior of birds in tropical forests.

_____ 30 yrs.
MA Ecology and Systematics, U. of Kansas 1970.
2 yrs. Research Asst. on ant-following birds in Belem, Brazil.
10 months Teaching Asst.

_____ 39 yrs.

MS Biology, U. of Oklahoma.
BA Biology, Ohio Dominican College.
7 yrs. high school biology and conservation teacher.
5 yrs. elementary teacher.
5 yrs. research technician, Parke Davis & Co., polio vaccine studies.
Research interests: ecological significance of phytotoxins.

_____ 54 yrs.

PhD Plant Pathology, Ohio State.
BA Biology, Marietta College.
6 yrs. exp. as instructor at Ohio Agr. Research and Development Center.
Interested in biological control of plant disease, epidemiology of disease, saprophytic microflora.

_____ 23 yrs.

MS Wildlife Management, Penn. State U.
BS Forest Technology, Penn. State U.
1 yr. Grad. Asst., teaching forestry, Penn State.
3 months Rsch. Asst., wildlife mgmt., Penn State.
Interested in ecology and natural resource mgmt.

_____ 29 yrs.

MS and BS Fishery Biology, Michigan State U.
2½ yrs. Research Asst., plant nutrient uptake, Michigan State U.
6 months student helper, identify terrestrial plants, Michigan State U.
2 summers Forestry Aide, U.S. Forest Service.
Interested in Freshwater Fishery Biology and Fish Culture.

_____ 25 yrs.
PhD Wildlife Ecology, Texas A&M.
BS Biology, U. Texas at El Paso.
1 yr. Teaching Asst., Texas A&M, mammalogy course.
3 months Research Asst., Nilgai Antelope study, Texas A&M.
Interests: Ecological research on mammals, specifically wild sheep of Asia.

_____ 26 yrs.
MS Wilflife Science, Texas A&M.
1 yr. exp. Public Use Specialist, Dept. Interior, Aransas Nat. Wildlife Refuge, Texas.
2½ yrs. Research Asst., breeding biology and behavior of Whitewinged Doves, Texas A&M.
1½ yrs. exp. as Lab. Asst., Pan American College and Austin State College.

_____ 29 yrs.
MS Fisheries, U. Washington 1970.
BS Fisheries, Colorado State U.
8 months Biological Aide, International Pacific Halibut Commission.
2½ yrs. Research Inst., Fisheries Research Inst., U. Washington.
6 months Biological Aide, Alaska Dept. Fish & Game, Salmon counts.
Interested in Fisheries: tagging, growth & age analyses.

_____ 27 yrs.
MS Fisheries, U. Washington.
BS Zoology, Colorado State U.
7 months Research Tech., Histological work, U. Wash. Dental School.
1½ yrs. Lab. Tech., plankton study, U. Washington Fisheries Research Institute.

_____ 28 yrs.

MS Wildlife Biology, BS Zoology, Colorado State U.
1 yr. Biologist, conservation planning, writing and research, Defenders of Wildlife.
1 yr. Naturalist, Saguaro National Monument, U. S. National Park Service.
2 yrs. Research Asst., physiological and pathological study of deer, Colorado State U.
4 summers Forestry Aide and fire lookout, U. S. Forest Service.
Interested in wildlife (mammal) biology and management, conservation of endangered species.
Wife assists director of Woodrow Wilson International Center (aid Latin Americans in U.S.). Exp. as Ranger Historian, U. S. Nat. Park Service. Former PCV in health and nutrition.

_____ 26 yrs.

MS Biology, Chicago State College.
BS Biology, U. Illinois.
3 months Lab. Asst., biochemical analyses, U. Chicago.
9 months control chemist, test drinking water at filtration plant.
4 months Rsch. Asst., bioengineering lab., U. Illinois.
Interested in biochemistry, physiology and behavior of fishes; evolution and ecology of primates.
Wife has MS Information Engineering, BS Engineering, U. Chicago.
1 yr. Rsch. Asst., computer simulation of urban transportation, U. Chicago.

_____ 37 yrs.

BS Biology, Eastern N. Mexico U.
12 yrs. Park Ranger, U.S. National Park Service. Work included interpretive writing, talks, tours, school programs, law enforcement, fire fighting, search and rescue. Has been interpretive specialist for last 7 yrs. at parks in North Dakota, Utah and California.
Interested in management of national parks.
Wife has exp. as extension home economist.

_____ 26 yrs.
MS Wildlife Biology, BS Wildlife Management, State U. of N.Y. College of Forestry (MS expected 6/72).
1 yr. Teaching Asst., ecology and anatomy, SUNY.
8 months Fish and Wildlife Tech., woodcock hematology, N.Y. State Dept. of Env. Conservation.
14 months Research Asst., woodcock ecological study and wildlife telemetry testing, SUNY.
Interested in ecology and habits of game animals, conservation education.

_____ 24 yrs.
MA Ecology, U. Calif. at Santa Barbara (expected 8/71).
BA Biology, Stanford U.
2 yrs. Research Asst., marine biology, U. Calif.
1 summer Rsch. Asst., insect behavior, Stanford.
Research on biology of the black abalone and salinity tolerance of barnacles.
Interested in marine ecology and pollution control.

_____ 22 yrs.
MS Botany, BS Wildlife Biology, U. Montana (MS expected 8/71).
1 yr. Teaching Asst., botany and mammalogy, U. Montana.
Interested in wildlife management, big game, habitat studies and conservation.

_____ 30 yrs.
MS Wildlife Ecology, U. Wisconsin.
BS Wildlife Ecology, Utah State U.
1 yr. Public School Principal and Science Teacher.
8 months Fishery Biologist, marine ecological study, U. S. Fish and Wildlife Service.
Thesis research on ecology and population dynamics of red-tailed hawk.

_____ 24 yrs.
MS Sanitary Engineering, New York U. 1971
BS Civil Engineering, Union College.
3 yrs. Asst. San. Engineer, N.Y. State Dept. of Environment Conservation and Dept. of Health.
Work on water supply, pollution control.
Can operate construction equipment and aircraft.
Interested in conservation, environmental engineering, pollution control, solid waste management.

_____ 28 yrs.
PhD Zoology, U. Calif at Berkeley (expected 11/71).
MS Zoology, Oregon State U.
BS Zoology, Ohio U.
1 yr. Research Asst. physiology and electron microscopy, Calif. and Oregon.
2 yrs. Teaching Asst., Zoology, Oregon.
Interested in functional morphology, physiology and ecology of marine invertebrates, culturing mollusc and crustacean larvae, photoplankton physiology, chemical oceanography.

_____ 23 yrs.
MS Zoology, Rutgers U. (expected 10/71).
BA Biology, Hartwick College.
1 yr. Teaching Asst., Zoology, Rutgers.
Thesis on effects of chemicals on macroarthropod populations in soil.
Interested in population ecology, wildlife biology, national parks and conservation.
Wife has BS Nursing, 1 yr. intensive care in hosp.
1 yr. public health nursing.
Conducts family planning and child care clinics.

_____ 24 yrs.
MS Environmental Engineering, Rice U. (expected 5/72).
BA Mechanical Engineering, Rice U.
Summer work as metallurgical tester of aircraft parts, tester of electrical power sources.
Interested and trained in water pollution control, emphasizing biological and chemical aspects.

_____ 24 yrs.
MA Journalism, Penn. State U.
BA English, State U. of N.Y. at Albany.
1 yr. Editor, Inst. for Research on Land and Water Resources, Penn State U.
1 yr. consultant in oral communications, New York State Dept. of Civil Service.
1 yr. Editor, New York State Assoc. for Mental Health.

_____ 35 yrs.
MS Horticulture, U. Hawaii.
BS Ornamental Horticulture, U. Connecticut.
3 yrs. Asst. Landscape Architect for private firm.
2 yrs. Research Asst., hort., U. Hawaii.
Extensive farming exp.
Interested in ornamental plants, park and highway planning, conservation.

_____ 28 yrs.
PhD Parasitology, Wayne State U. (expected 10/71).
BA Biology, Kansas State U.
1 yr. Asst. Prof. Biology, Houghton College.
Conducted parasite surveys of freshwater fishes, deer and elk in Michigan.
Interested in ecology, pathology and distribution of parasites of fishes, and in developmental biology of trematodes.
Wife has MS Physical chemistry, 3½ yrs. research in biochemistry and biophysics for Michigan Cancer Foundation.

_____ 29 yrs.
PhD Zoology, U. Calif. at Berkeley (expected 9/71).
BA Biology, Kenyon College.
2 yrs. Asst. Prof. Biological Sciences, San Jose State Col.
1 yr. Teaching Asst., Zoology, U. Calif.
Summer work as National Park Ranger - Naturalist, Tech. Aide in mosquito control program, Rsch. participant in bird parasite study, Asst. in field studies of elk and moose.
Graduate coursework at Friday Harbor Marine Lab. and U. of Costa Rica with O.T.S.
Doctoral research on ecology of marine invertebrates.
Interested in population studies and general field rsch.
Wife has MS Zoology, exp. as teacher and rsch. geneticist.

Mr. PASSMAN. Do you subscribe to the theory that when you do something for people what they could and should do for themselves, they are inclined to become complacent?

Mr. BLATCHFORD. Yes, sir; I do.

Mr. PASSMAN. When you send these youngsters abroad, you have some reason why you are sending them. They have some reason why they are going, too. Maybe to stay out of the Army but since they have changed that plan, I don't know. Inasmuch as you do such a selling job on the American public about recruiting these people, that they are so experienced and they are going to go abroad and impart all of this great knowledge, but when they return they are helpless and you have to go out and find a job for them? Do you give them an opportunity after they return to go out and seek a job on their own before you take them over?

Mr. BLATCHFORD. Absolutely.

Mr. PASSMAN. When they don't find a job, you pick them up?

Mr. BLATCHFORD. No; we enroll them overseas.

Mr. PASSMAN. What?

Mr. BLATCHFORD. This was a pilot project no longer active because of the merger. It was an attempt to enroll people with overseas experience in programs domestically and thereby implement the third purpose of the Peace Corps Act, which to help America through its returning volunteer and what he could contribute after he came home.

Mr. PASSMAN. I thought he went abroad with this experience and he was going to enlarge upon that experience. He was going to impart this great knowledge to these people abroad.

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. Now you bring him back as a helpless babe and take him in your arms and find him a job?

Mr. BLATCHFORD. Not at all. But we can facilitate——

Mr. PASSMAN. I thought that he had acquired this status before he went abroad?

Mr. BLATCHFORD. He has the status.

Mr. PASSMAN. He went abroad to impart great knowledge to these people and now you bring him back and he doesn't know how to go about looking for a job so you take him over?

Mr. BLATCHFORD. We found that industry, the State Department, mayors and Governors, sent representatives to these transition centers to talk to the volunteers because this was a very great aid to them as well as to find out where their resources were.

Mr. ROONEY. Those fellows from the State Department must have been from the Loose Pack; they didn't have anywhere else to send them. You know, in the State Department they have an area called Loose Pack.

Mr. BLATCHFORD. I am not familiar with that.

Mr. ROONEY. They don't have an area to assign those fellows. I take it these are the people sent to this meeting or meetings?

Mr. BLATCHFORD. They are often looking for aid, and when I say that I mean State Department and AID. Specialist on specific assignments to pick up on technical capacity. The same thing Mayor Lindsay——

Mr. ROONEY. Now you are surely in the right league.

Mr. PASSMAN. What is the name?

Mr. BLATCHFORD. The mayor of New York and the mayor of Cleveland.

Mr. PASSMAN. Is your best recommendation?

Mr. BLATCHFORD. No; I am not recommending him.

Mr. ROONEY. He ought to be in the Peace Corps himself.

Mr. PASSMAN. I think he would make a good volunteer.

Here is what concerns any serious-minded person. You represent to the committee, to the Congress and to the people of America that you are taking these people who have great experience and they are well qualified to be sent abroad to impart knowledge that will be beneficial to the people in those countries. They go over for a year or two and you take some of them out of colleges, some of them out of universities and you indicate that you are borrowing some of them from society so that they can impart this knowledge they have already acquired.

Mr. BLATCHFORD. That is correct.

Mr. PASSMAN. If that be true, when they return, I wouldn't know why they wouldn't want to go back to their respective communities and pick up where they left off with even greater knowledge, if they are as good as you said they are before you sent them out.

Mr. BLATCHFORD. That is right.

Mr. PASSMAN. You said "That is right," but you had this recruiting program and the purpose was to find jobs for them. You can not have it both ways.

Mr. BLATCHFORD. Again, it was not just to find jobs and occupations for them. They can get jobs. It was to try to steer them into activities which would be helpful to the country here—social services, urban planners, people that were needed here. You have mentioned environment.

Mr. PASSMAN. It was not to help them get a job?

Mr. BLATCHFORD. No.

Mr. PASSMAN. Do you think they acquired any experience abroad? They didn't go over to be taught, did they?

Mr. BLATCHFORD. No.

Mr. PASSMAN. They knew more when they came back than when they went over?

Mr. BLATCHFORD. I would hope they would——

Mr. MCEWEN. Would the chairman yield?

Don't we have a program like this for any other young people to be sure that their talents are not wasted and we get this in the right place?

Mr. BLATCHFORD. Yes, sir; The Navy has a program which is highly successful in San Francisco which helps the veteran coming back and those who returned from the Navy to be able to use whatever executive talent and electronics skill they have, because they have been out of the system a few years to come back in, plug in well to the system here.

The President inaugurated the new program such as this for returning veterans from Vietnam where they can be channeled into helpful and useful activities.

Mr. ROONEY. That justification is in the Peace Corps?

Mr. BLATCHFORD. We started before that.

Mr. MCEWEN. That is my understanding, they started first. If we are coming to this job bank concept and going to know what the skills

are that they had, fine. I never could understand why, at the very inception of the Peace Corps, it had to set up a special program to take care of these people when they came back.

I share the chairman's feeling. If they are so all-fired competent to save the world, why do we have to save them when they come home?

Mr. BLATCHFORD. We don't have to. It is just a question of whether America can utilize their skills or not. We don't have to do this. It is just an investment which pays off, and not only in their lives but in the communities around the country that are desperately looking for people with those particular backgrounds and skills.

Mr. ROONEY. Would the gentleman yield?

Get them some funding down at OEO?

Mr. BLATCHFORD. No. We pay some of the people, manpower and training. They pay their own way to come in and own transportation to get to the center.

Mr. ROONEY. I guess that went out in left field. You know in Brooklyn they say they want some funding. Thank you.

Mr. PASSMAN. The very fact that these people have been run out of 14 countries is not a personal responsibility of yours. I thought you should at the proper time when the dust is settled, look at the same program that has been going for 25 years under the bilateral technical aid program where we sent these people abroad with the experience, and the AID agency just verified we had only been asked to get our personnel out of one country in the world, which was Cambodia.

That is the only nation on the face of the earth.

Mr. BLATCHFORD. How about Indonesia?

Mr. PASSMAN. They did not. They asked the Peace Corps to get out but not AID. We never suspended it but continued disbursing the technical aid program.

Mr. BLATCHFORD. TA or financial loan?

Mr. PASSMAN. They did not ask us out; they asked the Peace Corps out, but we verified this with the AID agency and went directly to the Controller. We were only asked to get our personnel out of one country. That was Cambodia. Now there are four other countries or maybe five where we broke off diplomatic relations and suspended it. We have never been asked out of but one country. Compare your 10 years' experience with AID's 25 years' experience, where they have disbursed billions of dollars, and have been so successful. Here you have been asked to get out of 14 nations doing the same type of work. At least you ought to look into it because there is something back of this. They just don't come along and take one program and say, "Get out of here," without something being back of it.

FISCAL REPORTING IN NEW AGENCY

You are going to have a new program known as Action, and nowhere in it will Peace Corps be mentioned. It will be Action International and Action Domestic.

Do you feel that you should possibly get all of your money from one subcommittee? Aren't you going to have difficulties splitting this into pieces, going before several subcommittees when your assistant testified that you are going to have one set of books? Wouldn't you fare better if you had to justify it to only one committee, since it is going to be in a lump sum on your records?

Mr. BLATCHFORD. As far as I, personally, am concerned, it does not matter to me. I would be happy to testify before a number of committees or one committee.

Mr. PASSMAN. I don't know why you would like to go through several committees when you are going to have only one account.

Mr. BLATCHFORD. I said that I would be willing to. I didn't say I would be——

Mr. PASSMAN. I don't know whether you have any business experience or not. You are too young to have had much. Your assistant here said it was in one account. Is that what you said?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. Let me talk to you as a businessman. Since it is in one account and one entry, would it not be better to put it together and justify it before one committee rather than to go before several committees? I am trying to be realistic about this.

Mr. BLATCHFORD. From an agency management point of view, yes, sir.

Mr. SHRIVER. That is our responsibility. He does not decide where it is going to go.

Mr. ROONEY. No.

Mr. PASSMAN. If he is going to administer this program he certainly should have some knowledge as to the business approach. As long as the gentleman over here says it is going to go into one account it would appear to me that you ought to justify it in one piece.

Mr. MCEWEN. Would the chairman yield?

Does the gentleman mean there is no breakdown of this account?

Mr. BLATCHFORD. No. We added clearly there would be a breakdown as to the expenses. There are many accounts. There are the accounts for the International, accounts for what Mr. Buehler said will go into—what?

Mr. BUEHLER. One appropriation.

Mr. BLATCHFORD. One appropriation with one general bank account. As far as——

Mr. PASSMAN. You make a breakdown even under your present system, do you not?

Mr. BLATCHFORD. Yes, sir; many accounts.

Mr. PASSMAN. You have your travel, you have all different costs drawn out of this general account. You are going to put it in one heading, as you said you are going to do, one account—is that right?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. If that be true, then I think you would be able to do a better job if you had to justify it in one item. You are going to have several pieces to it?

Mr. BLATCHFORD. Yes, sir.

Mr. PASSMAN. This is going to be a little mixed up, in my opinion.

Mr. Roybal?

PROBLEMS OF THE PEACE CORPS

Mr. ROYBAL. Thank you, Mr. Chairman.

Mr. Chairman, I have been a friend of the Peace Corps right along. I see their assets and their liabilities, but I think certain accusations if carefully analyzed can lead to the conclusion that the Peace Corps

is not really that bad. What I am saying is that some of the problems that the Peace Corps may be having with the committee and Members of Congress is probably directly due to the executives and the administrative section of the Peace Corps. I don't think that anyone can deny the fact that the volunteer is doing a good job.

Mr. PASSMAN. Don't speak for me. I certainly respect the gentleman's views, but if I had to meet my Maker in 3 minutes and the last decision the good Lord would let me make—it would be to abolish the Peace Corps. Then I could die in peace. That is my feeling. I might as well put it in the record.

Mr. ROYBAL. Mr. Chairman, I was speaking for myself and no one else. These are my opinions with regard to the Peace Corps. I do not defend some of the bad things that no doubt have occurred and are occurring, but I do compliment those individuals that I personally have seen out in the field that have done a good job, individuals who have asked to remain, even though there have been intergovernmental conflicts within a country. One of those countries is the Dominican Republic, as an example, where the Peace Corps played a tremendous role servicing in friendly terms the conflicting groups. I think Guatemala was another.

There are some countries perhaps where the Peace Corps has been asked to leave and others where they have been allowed to remain. The truth of the matter is that not everything about the Peace Corps is bad. I think we must stipulate the fact that the Peace Corps is made up of individuals, and because it is made up of individuals there are a lot of failings, as much in the Peace Corps as any other Department.

Having said that, I would like to say for the record that where my tremendous criticism of the Peace Corps lies is not with the volunteer as it is with the cost of administrative expenses, particularly those here in Washington, D.C.

The Peace Corps volunteer works for practically nothing. The administrative expenses are high because the people working within that particular category are getting good money. I don't say they are not worth it, but it seems to me there are too many of them.

The statement that I read here on page 7 of the justifications is one that I have read many times, not in this committee, since I have only been here just this year, but in the Committee on Foreign Affairs in which I served for 6 years. You state that "The Peace Corps started in 1962 with a budget of about $30 million," and that this coming fiscal year you are asking for $82.2 million.

INCREASED EFFICIENCY AND INCREASED COST

However, the statement that follows is the one that confuses me most ever year, that is, "A constant effort is made to reduce costs and improve efficiency." That is a statement that I have been reading every year and it seems to me by now your reduction of costs would have reached rock bottom and the institution because of its efficiency operation would be at its very highest.

You go on, "Particularly in significant areas of training, administration, overseas program, and the size of the Washington headquarters staff."

I come back again to this one point, the Washington headquarters. This has been under the process of reduction as long as I have been here in Washington and apparently you have not reduced very much. What is the situation?

Mr. BLATCHFORD. The situation is that it did increase. It has not been under reduction constantly. It was reduced 29 percent in the last year and a half. That is in total numbers of people. I can show you right——

Mr. ROONEY. From how many to how many?

Mr. BLATCHFORD. Salary increases that have occurred to employees raise the expenses on a comparable basis: $28.4 million in administrative expenses would be $23.5 million down $5 million, if it had not been for the pay raises. We reduced personnel. We reduced personnel, but we don't reduce the overhead because pay raises of those remaining continue to take up the same amount of money. These are Federal pay raises.

Mr. ROONEY. In the reduction to which you referred, how many permanent positions were reduced to how many?

Mr. BUEHLER. The end strength in fiscal year 1970 for Washington was 573. It is anticipated it will be 415 in 1972.

Mr. PASSMAN. Would you yield?

Mr. ROONEY. These are permanent positions?

Mr. PASSMAN. What was the Peace Corps cost in 1969? What was the average cost of one individual??

Mr. BUEHLER. In 1969 it was about——

Mr. PASSMAN. In 1963 it was $9,074, is that correct?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. Then it has gone up and down. In 1971 you reached a figure of $10,613?

Mr. BUEHLER. Yes, sir.

Mr. PASSMAN. Now you are at $9,873?

Mr. BLATCHFORD. Yes, sir.

Mr. PASSMAN. I think Mr. Roybal makes a very good point. If you look at it on the basis of this, then your reply is not clear on the record.

Mr. ROYBAL. This is precisely the point I was getting to.

Mr. BLATCHFORD. Since we are being compared to other agencies who get paid in dollars and salaries, if you took the Peace Corps volunteer and he increased his living allowance and his readjustment allowance at the same level that AID people have increased theirs in the field and other agencies have, you would have a very low percentage, far lower than 33 percent administration. The volunteer because of an act of Congress gets $75 a month. The practice in the field, nonadministrative man, the volunteer, still gets $50 a month in Nepal and $75 a month in the bank, the same as in 1961, but inflation and training costs and airline tickets and everything else have gone up considerably. You have to have a higher percentage or ratio of administration because you have kept your field program at exactly the same cost.

Mr. ROYBAL. This makes sense, but your reduction in personnel from 573 to 415, particularly when your emphasis is on efficiency, is not a great reduction over a period of these many years.

Mr. BLATCHFORD. We have only been here 2 years in this administration.

Mr. ROYBAL. The reduction is taking place in this year, not over a period of many years.

Mr. BLATCHFORD. I can only say that we came in 2 years ago and we have had 1½ years to reduce it.

Mr. ROONEY. Would the gentleman yield?

There was a time when the administrative expenses went up from 29.5 percent in 1969 to 34.5 percent in 1972.

Mr. BLATCHFORD. That is a percentage.

Mr. ROONEY. Yes.

Mr. BLATCHFORD. But the amount of money is going down.

Mr. ROONEY. We are talking about percentage?

Mr. BUEHLER. If they translated the volunteer allowances into salaries, I believe a comparison of the administration costs would get them below 10 percent.

Mr. BLATCHFORD. If you are at the 70 percent we are earning overseas, what they could earn if they worked for AID or for any industry, and you translated this into salaries instead of their willingness to volunteer and live on a subsistence allowance, the overhead to support them would be, as Mr. Buehler said, less than 10 percent.

Mr. ROONEY. I cannot buy that.

Mr. PASSMAN. We want to keep the record straight.

You read in the record that the Peace Corpsman was getting $75 a month. That would be $900 a year, whereas the facts are that this Peace Corpsman is getting $2,400 a year. Isn't that correct?

Mr. BUEHLER. $900 is going into a trust account that——

Mr. PASSMAN. That does not make a bit of difference. When he serves his year he comes out and has $2,400?

Mr. BUEHLER. That is right.

Mr. PASSMAN. If you read this record you would think it is $900. There have been so many innuendoes and intentional mistakes of this outfit that I am suspicious of every bit of this. I didn't want the record to show he is getting $900 when he is getting $2,400. You merely retain this when he comes home and you give it to him.

Mr. BUEHLER. If you compare it to the 15 or 18——

Mr. PASSMAN. Mr. Roybal is doing the examining. I want to keep the record straight. It is not $900 but $2,400, and you answered in the affirmative. That is all I wanted to get in the record. Thank you.

Mr. BLATCHFORD. Mr. Roybal, it is like the church. If you were administering, which is heavy administrative expenses—if I were administering 100 volunteers getting nothing but their lunches, my salary would be 90 percent of the administration of the program. That is the point I am trying to make. This is a volunteer program where the people in the field are depressed in what they are receiving. They cannot be compared to industry or a Government program where everyone is on salary.

Mr. ROYBAL. The people in the field are actually administered to by the director of that particular area?

Mr. BLATCHFORD. Yes, sir.

WASHINGTON STAFF

Mr. ROYBAL. Not by the people sitting here in Washington, is that correct?

Mr. BLATCHFORD. That is right. Overseas staff as well as a Washington staff. The Washington staff handles mainly the recruitment and selection on this end.

Mr. ROYBAL. The criticism that I hear and that I happen to agree with is that your Washington staff is top heavy.

Mr. BLATCHFORD. That is exactly what the President told me when I arrived here 2 years ago. We cut this 29 percent in the 2-year period, which is pretty substantial.

Mr. ROYBAL. Do you intend to cut it further?

Mr. BLATCHFORD. This will depend completely on the merger. We expect to be able to make savings when we start merging administration, budget people, recruitment. I would assume it would.

Mr. ROYBAL. Is it also possible because of the merger you would want to increase it next year?

Mr. BLATCHFORD. No.

Mr. ROYBAL. You say because of the merger, chances of decreasing it are better than chances of increasing it?

Mr. BLATCHFORD. Definitely.

Mr. ROYBAL. Is this where your statement of efficiency comes in then?

Mr. BLATCHFORD. The statement of efficiency is a fact of numbers reduced and percentages reduced in 1- and 2-year periods. We can show that that is more efficient. You are still able to operate the same program with more people with $3 million less in this coming year of administrative costs.

Yet we will have more volunteers in the field. That is efficiency. We expect to have greater efficiencies once this merger gets underway.

Mr. ROYBAL. More volunteers in the field is something that I agree with and I don't think you have to have one executive sitting here in Washington for every 10 volunteers you have out in the field.

Mr. BLATCHFORD. I agree.

Mr. ROYBAL. Therefore, that is not your intention. Your intention is to provide the efficiency that is necessary, to perhaps even decrease the personnel that you have in Washington, but, nevertheless, increase the efficiency of the volunteer who is doing the community work in whatever area he is working?

AMERICAN STAFF OVERSEAS

Mr. BLATCHFORD. Yes, sir. We also want to put the volunteers more under local supervision where we will not need American supervisors and staff and personnel. In Malta we have no American staff. In Mali we have one. In Malawi we only have one staff member, a very low paid man, for all the volunteers in the country. We are finding out ways of reducing the American staff and using much more the host country national agencies to supervise.

Mr. ROYBAL. Does that mean, then, that your Peace Corps director in a particular section of the world will no longer be needed as a director in that area?

Mr. BLATCHFORD. That is right; no director in Malta, in that country.

Mr. ROYBAL. In what other countries don't you have a director?

Mr. BLATCHFORD. That is the first one.

Mr. ROYBAL. Therefore, that is the only one?

Mr. BLATCHFORD. And Panama, where it is under multinational.

Mr. ROYBAL. But you do have a director in other Latin-American countries?

Mr. BLATCHFORD. That is the way it started. The Peace Corps began that way with a completely American-staffed operation, and we are trying to change that.

Mr. ROYBAL. That is the point. Is there a change contemplated?

Mr. BLATCHFORD. This is a change in policy in the last 2 years, to reduce the American staff presence and to turn it over more to the nationals.

Mr. ROYBAL. And that is a change that will result in more efficiency?

Mr. BLATCHFORD. It already has resulted in a 29-percent cutback in American staff. Do you have a figure on that?

Mr. BUEHLER. We have reduced physicians from 134 to 46, sir.

Mr. ROYBAL. There is one country where you don't have the volunteers under American supervision. Then the second, which may be Panama?

Mr. BLATCHFORD. Yes.

Mr. ROYBAL. That makes two out of 55?

Mr. BLATCHFORD. Out of 55.

Mr. ROYBAL. Then you made a savings of 29 percent with only two countries——

Mr. BLATCHFORD. No, no; we reduced the others. As I say, physicians from 134 to 46. That is American physicians where we have been able to turn it over to local doctors. There are secretaries. We have reduced American secretaries and turned that over to local secretaries.

Mr. ROYBAL. The physicians were classified as volunteers, were they not?

Mr. BLATCHFORD. Staff.

Mr. ROYBAL. Therefore, they were getting a salary that a physician would get in the United States.

Mr. BLATCHFORD. I don't know if it would be comparable; probably less.

Mr. ROYBAL. The Peace Corpsman definitely gets a salary comparable to that in the United States, does he not?

Mr. BUEHLER. We have a wide range.

Mr. BLATCHFORD. It depends on what he did before. If he was a corporation executive, he takes a big cut. If it were a university professor he would probably be doing as well.

Mr. ROYBAL. In that particular category of physicians, what other classification do you have of professional people whose work will be terminated under your present proposal of efficiency?

Mr. BLATCHFORD. Our policy is to phase out American physicians, secretaries, and administrative officers, to reduce the associate directors who are generally supervisors and let that then be supervised by the Ministry people and to provide only technical people in backstopping instead of a general supervisor. If it is an agricultural expert, backup man, we may continue him if the country doesn't have that. The same in education, and same in skilled trades, and so forth, but to remove the general supervisors that are Americans and train locals to do that job and let the Ministry do them. It is a worldwide policy. It has worked very strongly now with the administrative personnel, the general supervisors. Eventually we would hope that the technical men themselves would be able to be turned over to the nationals, and it would be just volunteers supervised by local technical people and maybe one or two staff members with liaison with the Embassy and with Washington.

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Mr. ROYBAL. How will that operate in the event there is a merger?
Mr. BLATCHFORD. We will continue that policy overseas.
Mr. ROYBAL. You will continue that policy overseas?
Mr. BLATCHFORD. Of reduction of American staff overseas.
Mr. ROYBAL. In the case of physicians working overseas, will they be placed in positions in the United States under the merger?
Mr. BLATCHFORD. No. They are just being phased out unless they volunteered for a health program or something like this.
Mr. ROYBAL. That is all, Mr. Chairman.
Mr. PASSMAN. Thank you.
Mr. ROONEY. Mr. Chairman, may I just ask a question or two?
Mr. PASSMAN. Yes.

SECURITY

Mr. ROONEY. Who does the checking for security of personnel overseas?
Mr. BLATCHFORD. We have two things. We have a national agency check which is a very efficient check and we use the——
Mr. ROONEY. Is that the Civil Service Commission check?
Mr. BLATCHFORD. Yes.
Mr. ROONEY. That is a perfunctory thing.
Mr. BLATCHFORD. No; we have more than that.
Mr. LELAND. We have a full field Civil Service background investigation for every employee overseas.
Mr. BLATCHFORD. We use the full field investigation for employees and in many cases with the volunteers, volunteer family and many types of volunteers.
Mr. ROONEY. What supervision do you have over them overseas?
Mr. BLATCHFORD. Over the volunteers?
Mr. ROONEY. Yes.
Mr. BLATCHFORD. As we were just discussing, we have our own staff which report there, a country director in most cases and a staff, depending on the size of the program and the skills.
Mr. ROONEY. Have you found in the past any violators of so-called national security among Peace Corps personnel overseas?
Mr. BLATCHFORD. Not as far as finding subversives. I don't think that we have ever found a subversive.
Mr. ROONEY. How about homosexuals?
Mr. BLATCHFORD. I don't doubt that there have been terminations which there are each year for those who have psychological problems. They are not identified, necessarily.
Mr. ROONEY. They have them each year in the State Department, too, but my next question is: How many?
Mr. BLATCHFORD. All I can do is furnish you the number who are terminated early for emotional or psychological reasons. I don't believe they publicly identify them as homosexuals.
Mr. ROONEY. You don't get a resignation from them in which they admit to being a homosexual, is that right, the same as the State Department does, the Foreign Service?

Mr. BLATCHFORD. I don't believe that they are classified as such. They are terminated under a category which has to do with emotional and pyschological reasons. They may want to add that to the record but I doubt it.

Mr. ROONEY. You didn't have any personnel in that parade on Sunday in New York, did you? There was a Washington delegation up there, you know.

Mr. BLATCHFORD. Which parade?

Mr. ROONEY. The one on Sunday. Did you not read about it?

Mr. BLATCHFORD. Oh, no, I don't believe we did. That is not our bag,

Mr. ROONEY. No. Apparently you get away from this problem. Well, now, will you list these people without names—I am not interested in names—describing exactly what their problems are? You call them problems, emotional problems; is that right?

Mr. BLATCHFORD. Emotional or psychological problems.

Mr. ROONEY. Yes. Well, you will describe what problems there were and we want to know how many of them.

(The information follows:)

From January 1, 1970 to June 30, 1971, the following Peace Corps volunteers were returned from overseas assignments for psychological or psychiatric reasons:

Latin America	59
Africa	48
East Asia and Pacific	29
North Africa, Near East and South Asia	29
Total	165

DRUG INVOLVEMENT

Mr. ROONEY. Now, have you found any users or possessors or dealers in narcotics in your overseas personnel?

Mr. BLATCHFORD. We have found none as far as so-called hard drugs. We have had to terminate about 12 volunteers for possession or use of marihuana.

Mr. ROONEY. And where were they all? All in the same country or in different countries?

Mr. BLATCHFORD. Malaysia, Fiji come to mind right now. I could furnish the exact countries.

Mr. ROONEY. Please insert that definite information at this point in the record, if you will.

(The information follows:)

No records have been kept on terminations resulting from use or possession of marihuana until the past year. Since that time, there have been nine in number, all in Afghanistan, and occurring between July and December 1970.

Mr. ROONEY. That is all, Mr. Chairman.

SECURITY CHECKS ON LOCAL EMPLOYEES

Mr. PASSMAN. Briefly quoting from your statement:

Today more than half of our overseas staff are non-Americans—another indication of our emphasis on making the Peace Corps "theirs" as well as "ours."

What method do you use in checking out the overseas foreigners that you hire with respect to security?

Mr. LELAND. They have to have a background investigation done by the Embassy. They are Foreign Service local hire employees.

Mr. PASSMAN. Who hires them? American personnel?

Mr. LELAND. We hire them. The Peace Corps hires them. The Embassy does a background investigation.

Mr. PASSMAN. But you don't have a security check as such, other than maybe the secretary in an Embassy will ask a few questions and fill out a form?

Mr. LELAND. They are supposed to do a further check than that, but the Foreign Service local employees still cannot have access to classified information.

Mr. BLATCHFORD. It is similar to the AID.

Mr. ROONEY. You demand from the local police a statement with regard to the local employee; is that right?

Mr. LELAND. That is one of the things; yes.

Mr. PASSMAN. And you just stated that they cannot have access to classified information; is that correct?

Mr. LELAND. They cannot receive classified information.

Mr. PASSMAN. You mean the Embassy?

Mr. BUEHLER. No; the employees.

Mr. PASSMAN. The employee. What do you mean he cannot receive classified information? I am more interested in the check that we make.

Mr. ROONEY. He is not cleared for us.

Mr. PASSMAN. Oh, I see. So he could be a homosexual or anything else and you just don't get far enough into it to know much about his background? Do you pay the foreign personnel?

Mr. BLATCHFORD. Yes, we do.

Mr. PASSMAN. The same as ours? What do you pay them?

Mr. BUEHLER. We pay them in accordance with the locally approved wage rates as indicated by the State Department, sir.

Mr. PASSMAN. Oh, I see. Then they get more than our personnel but they don't get the allowance; is that right?

Mr. BUEHLER. They don't get more than our personnel, sir.

Mr. BLATCHFORD. Generally, they get considerably less.

SPORTS CORPS

Mr. PASSMAN. I notice on page 11 of your statement you say: "We have already developed a Sports Corps . . ." Is that right?

Mr. BLATCHFORD. That is correct.

Mr. PASSMAN. What is the Sports Corps? Define this, if you will.

Mr. BLATCHFORD. The Sports Corps is nothing more than an attempt to answer the country's request for people in recreation and coaching. Just as in other skills, skilled trades, and agriculture, the demands have been great for experienced people with degrees who know how to do the job. In sports, we have moved away from just general recreation to physical education programs, urban recreation programs, and actually coaching their team.

I will give you an example. The President of Venezuela came here and asked Mr. Nixon for coaches to set up recreation programs in the urban slum areas of his country.

Mr. PASSMAN. He must not have had anything too important to discuss with Mr. Nixon if he made a trip up here for that.

Mr. BLATCHFORD. I am sure he came for other things as well.

Mr. PASSMAN. Let's get back to the question before you get away from it. We have already developed the Sports Corps, and you know where you are sending these people, usually in the Far East, or the Middle East. Almost without exception in every town and city the most prominent thing they have is a big sports arena. Isn't that correct?

Mr. BLATCHFORD. Yes, that is correct.

Mr. PASSMAN. And they play their games well, and they have sports that are peculiar to that part of the world, do they not?

Mr. BLATCHFORD. They have their own recreation.

Mr. PASSMAN. Yes, and it just looks like you people are just trying to cover the waterfront. It would also appear that you are setting up an International Ecology Corps in addition to the environmental areas. Is that correct?

Mr. BLATCHFORD. Not in addition to the environment. That includes the work in natural resources, conservation, the environment, and the like. It is all under one.

ACQUIRING A SKILL

Mr. PASSMAN. This is the No. 1 problem in America today. We have gone over that. Now, you further state in your statement:

> We are also looking at several training models in the hopes of fashioning programs that will allow more Americans who do not enter with a skill to acquire the talents needed in promoting development.

Does that mean you are hiring raw recruits hoping that they get in?

Mr. BLATCHFORD. No. As you know, Mr. Chairman, our emphasis for this whole 2 years has been away from the generalist performing in any task in the village and towards specialists.

Mr. PASSMAN. I didn't quote you out of context; I read a complete sentence of yours.

Mr. BLATCHFORD. I am trying to give you the answer. The explanation is that we are trying to train people and give them greater specialties and more specialties so that we will be giving the countries the kind of people they need and are demanding every day. Instead of giving them generalists we want to give them specialists, and I think you have been in agreement with that direction that we have been going in the last 2 years.

Mr. PASSMAN. Enter what with a skill? The Peace Corps?

Mr. BLATCHFORD. That is right; into the Peace Corps.

Mr. PASSMAN. So if they do not enter with a skill then you expect them to acquire the talents needed in promoting development? I don't quite understand what you mean.

Mr. BLATCHFORD. Let me give you an example. There is a demand, say, for 100 agriculturalists——

Mr. PASSMAN. Why don't you recruit them with skills?

Mr. BLATCHFORD. We do. We have 70 percent skilled.

Mr. PASSMAN. How do you recruit them without a skill and expect them to acquire it while they are in the service?

MIRACLE RICE IN THE PHILIPPINES

Mr. BLATCHFORD. May I give you an example?

Mr. PASSMAN. Please do.

Mr. BLATCHFORD. Say there is a project in the Philippines with the Rice Institute to spread the miracle wheat and rice.

Mr. PASSMAN. You didn't have any more to do with that than I did. This strain of rice was developed with specialists from LSU, Baton Rouge, and the Peace Corps didn't have anything in the world to do with it.

Mr. BLATCHFORD. I didn't say we did.

Mr. PASSMAN. You are bringing this in to shore up your personnel.

Mr. BLATCHFORD. What Dr. Norman Borlaug did, and I can submit it for the record, was he said, "Fine, it takes experts to develop these, but extension agents have to be able to get them out into the area where they are needed," and a combination of people with highly skilled people, of which 70 percent now of the Peace Corps are skilled, and those who have traditionally come into the Peace Corps who receive training in a skill can work alongside them and actually help in this program.

Mr. PASSMAN. Of course, that isn't what your statement said.

Mr. BLATCHFORD. That is what it means.

Mr. PASSMAN. That isn't what it says. I am going to read it again slowly:

> We are also looking at several training models in the hopes of fashioning programs which will allow more Americans who do not enter with a skill to acquire the talents needed in promoting development.

It would appear to me that you are taking them in without a skill and expecting them to acquire these talents while they are in.

Mr. BLATCHFORD. During training, not while they are in; during training.

Mr. PASSMAN. You should have put in "training." You didn't say anything about it. Let's not take the credit away from the Philippines for developing this new strain of rice.

Mr. ROONEY. I thought you said LSU.

Mr. PASSMAN. LSU had some of their professors, I think two of them, but it was really a project of the Philippines. Isn't that correct? We only assisted them.

Mr. BLATCHFORD. Through a Rockefeller Foundation grant.

Mr. PASSMAN. My State is the largest rice-producing State in the United States, but I don't want to take the credit because it was started out in the Philippines and then subsequently they were helped by the professors from LSU. I don't want to take the credit away, from the Philippines.

OTHER ALLOWANCES PAID TO THE VOLUNTEERS

You know, you have some other items in here when Mr. Roybal was asking questions that you did not mention. You have $170 for dependent support. Now, what category would you place that in? Salary?

Mr. BUEHLER. No, sir. These are the dependents of the volunteer couple.

Mr. PASSMAN. But it is something new you started in 1971?

Mr. BUEHLER. It is a statistical item which is spread against all the volunteers.

Mr. PASSMAN. I know that. I know that as well as you do, but it is a new joker in the deck, isn't it?

Mr. BUEHLER. It is a new item, sir.

Mr. PASSMAN. Let's read into the record just what all these people do get. Let's see what you have here: You have travel-international, supplies and services, vehicles, housing, in-service training, readjustment allowance, living allowance, settling-in allowance. What is settling-in allowance? Boy, that is a good one. That could be interpreted broadly. You have leave allowance, clothing allowance, in-country travel, medical care, and dependent support. I thought we better read into the record just what the items covered. In all probability it will not be my great privilege and extreme pleasure to examine you on this outfit next year.

Thanks an awful lot. I yield to Mr. Shriver for any additional questions.

COMMUNITY DEVELOPMENT AND THE PEACE CORPS

Mr. SHRIVER. You say on page 5 that the number of volunteers in "community development" has been reduced from 1,555 to 367. What type of work were these people doing?

Mr. BLATCHFORD. It was a theory that was very prevalent in the Peace Corps at one time, that a general background man could go into a village with another, say, and organize the villagers to help themselves in a variety of projects. As I said here, 2 years ago we were going to take a hard look at the programs across the board. This is one of the ones we thought was a soft program and that was not meeting the primary needs of the countries in Latin America, that the volunteers were not sufficiently trained and getting a sufficient amount of support from the countries, and we thought they should be cut down only to the programs really making a contribution.

Mr. SHRIVER. I want to commend you for that. What other areas have been cut back?

Mr. BLATCHFORD. Classroom teaching which used a great number of volunteers, but this would often have to be replaced by another volunteer. We shifted into teacher training, training in developing new curriculums, moving into areas that they don't have, like math and science, and there our contribution could be in addition rather than phase out, rather than locked into the teachers every year. That is another area.

Mr. SHRIVER. Well, you spent quite a little time speaking of the reduction in administrative costs. Since they are down in fiscal year 1972 how does that compare with the fiscal year 1971 appropriation level?

Mr. BLATCHFORD. It is $3 million less administrative cost.

Mr. SHRIVER. How does the cost per trainee in fiscal year 1972 compare with 1971 and 1970?

Mr. BUEHLER. Slight downward trend because we have a larger input.

Mr. SHRIVER. Do you have an estimate——
Mr. BLATCHFORD. It is about $800 per trainee less.
Mr. BUEHLER. No.
Mr. BLATCHFORD. Did you say training?
Mr. SHRIVER. That is a pretty good-sized reduction.
Mr. BUEHLER. I am sorry; are you talking costs per volunteer, per year?
Mr. SHRIVER. Costs per trainee, per year.
Mr. BLATCHFORD. Right.
Mr. SHRIVER. How does 1972 compare with 1971 and 1970?
Mr. BLATCHFORD. $10,000 in 1971 and $9,800 in 1972.
Mr. SHRIVER. You are to be commended.
Mr. BLATCHFORD. There is often a lag in this. When you make cuts, for example, you don't feel them for the next year or two, and so some of the cuts we have made won't be reflected in what you are seeing in this past year but will be reflected in 1972.

COMBINED PROGRAMS

Mr. SHRIVER. Would you explain further what you have in mind regarding the proposed 3-year combined programs in which volunteers will serve both here at home and abroad?
Mr. BLATCHFORD. Well, as an example, we have worked a program with the Teachers Corps whereby a young person, a man or woman, would serve for 1 year in the inner city teaching, taking some academic courses at the university, and getting practice teaching at home. That expense would be shared with the Teachers Corps through the HEW appropriation. We would put up some of that money.
Mr. SHRIVER. How about Vista?
Mr. BLATCHFORD. We haven't worked it out with Vista yet. I was beginning to give an example of one we have already done. They are spending 1 year, entering this fall, and then 2 years overseas as teachers. They will have had experience and a degree. At the end of that time they get a degree, a year at home and 2 years overseas in some teaching program, usually in the innovative teaching program, in math, science, and so forth.
Mr. SHRIVER. There was considerable discussion of the International Ecology Corps, the Sports Corps, and National Park Development Corps. I think I understand what they are but how much is requested for each of those in this request before us?
Mr. BLATCHFORD. Those are just names to identify the activity that they do overseas. We haven't broken them down and budgeted for that Corps. It is not a separate administrative division. It is simply a name for our recruitment of athletes and coaches.
Mr. SHRIVER. For instance, you are appealing for coaches to go down to Venezuela.
Mr. BLATCHFORD. Right.
Mr. SHRIVER. For recreation kinds of programs. You don't have any separate allocation of funds?
Mr. BLATCHFORD. No; and costs per volunteer would be the same across the board.
Mr. BUEHLER. Our costs are generally the same. It makes no difference what kind of volunteer he is.

Mr. SHRIVER. Last year you said that you had no conclusive data demonstrating the relative effectiveness of your various training methods, but the new data bank would help in this regard. Will you tell us about that this year? You testified about it last year. Well, why don't you put the answer to this question in the record.

Mr. BLATCHFORD. I would like to analyze that a bit and review the record.

(The information follows:)

The contract with Oregon Research Institute is for the purpose of systematically developing a computer-based, and thus readily available, body of information derived from volunteer's impressions of both their training and subsequent work experience. Analyses are made by Oregon Research Institute in response to specific Peace Corps requests for information which is used to improve both the planning and conduct of training programs and the programing and implementation of field projects. During the past year four analyses have been performed, as follows:

(a) *Medical survey of returned volunteers.*—For the purpose of improving Peace Corps end-of-service procedures and insuring the extension of medical aid to eligible returned volunteers under provisions of the Federal Employee's Compensation Act.

(*b*) *Comparison of in-house training centers.*—To compare the relative effectiveness of various training facilities used by the Peace Corps.

(*c*) *Analysis of midservice conference questionnaires* (two reports).—To determine the extent of volunteer satisfaction with their training experience and their subsequent work assignment, detect deficiencies in training and problems in field assignment, and the like. Comparative analyses by country and by type of project were made.

PEACE CORP'S RESEARCH

Mr. SHRIVER. Then I noticed on pages 581 and 582 of last year's hearing quite a long list of completed fiscal year 1969 contracted research. Do you have much of that this last year?

Mr. BLATCHFORD. Less than we had before. I can get you the exact figures.

Mr. SHRIVER. Would you put a new table in the record corresponding to that which you supplied last year?

Mr. BLATCHFORD. Yes, sir.

(The information follows:)

All information relates to research chargeable against fiscal year 1971. It should, first of all, be noted that actual research expenditures this fiscal year were minimal, consisting only of the following:

(*a*) *A survey of American attitudes toward the Peace Corps, its goals, its programs.*—Roper Research Associates, Inc., $27,772. A national sample of 1,000 persons stratified by age, sex, income, region, and the like was performed. The information obtained was used to improve public relations campaigns and recruiting efforts.

(*b*) *Exploring new directions for the Peace Corps among seniors in major colleges and universities.*—Human Development Foundation, $2,475. A study of the attitudes of 100 students on 10 campuses was made to see if these schools, which had in the past not supplied comparatively large numbers of volunteers, are potential recruitment sources.

(*c*) *Peace Corps volunteer families.*—American Institutes of Research, $27,587. A study of volunteer families who have completed training and are now working overseas is underway to determine what training, logistical, and operational problems exist with respect to families and how they may be overcome.

Mr. SHRIVER. Incidentally, with those research projects what has resulted from the research? What improvements have been made because of the research?

Mr. BLATCHFORD. Yes, I will submit that for the record, too.

Mr. SHRIVER. Would you also designate which of these research contracts were given to organizations which included former Peace Corps employees?

Mr. BLATCHFORD. Be happy to.

(The information follows:)

The Human Development Foundation serves as an organizational base for professionals, committed to the ideals of the Peace Corps, to provide expertise and advice on program and policy issues as well as research on specific topics. In addition, it is a valuable link between the Peace Corps and the community of universities from which it draws its members. During the past year, the foundation presented completed research papers requested by the Peace Corps on the following topics:

(*a*) An analysis of the advantages and problems involved in any projected move toward privitization—that is, operation of some Peace Corps programs by non-Government institutions—of Peace Corps programs. This analysis has been useful in determining overall programing strategy.

(*b*) A study of the changing motivations of college students as this relates to Peace Corps recruitment of college graduates.

(*c*) A study—discontinued prior to completion—of the implications of the changing character and organizational arrangement of the overall United States development assistance programs as they relate to the Peace Corps.

The Human Development Foundation has former Peace Corps staff as members of the foundation. Dr. William M. Goldsmith, however, who actually performed the study referred to above has not previously been associated with the Peace Corps.

One member of the two-man team performing the second phase of the volunteer families study for the American Institutes of Research is a former Peace Corps volunteer.

Mr. SHRIVER. I noticed that last year's review of such research included a $26,000 contract to something called the Human Development Foundation made up largely of ex-Peace Corps employees for what appeared to be merely research into your research. It says this was for designing of research and selection of research contractors. What was that all about?

Mr. BUEHLER. That was to write specifications for broader research programs.

Mr. SHRIVER. The $26,000 was to——

Mr. BUEHLER. Not all of that $26,000. I would say about $6,000 of that was for that.

Mr. SHRIVER. What was the rest?

Mr. BUEHLER. Offhand, I don't know, sir.

Mr. SHRIVER. Do you?

Mr. BLATCHFORD. One was for a survey of attitudes toward the Peace Corps to back up the recruitment drive of the professor that was commissioned to take samples of student and faculty attitudes toward Peace Corps recruitment program.

(The information follows:)

This study was done in the spring of 1969. In a total of 50 colleges, 1,005 interviews with college seniors were completed.

The general purpose of the study was to survey the attitudes of seniors toward Peace Corps.

Another purpose in doing the study was to check the trend in senior attitudes, by comparing the results of this study with those of surveys conducted in prior years, and especially with the study done in 1968.

The main conclusions derived from the survey were as follows:

(1) The proportion of seniors expressing "senior interest" in joining Peace Corps was substantial—13% of total seniors—the same proportion as in the 1968 study.

(2) Those seniors "seriously interested" in joining Peace Corps tend to have participated more in extracurricular activities, and are in general more "activist" than the total senior group—a situation little changed from prior years.

(3) Respondents were largely positive about Peace Corps, but to a slightly lower degree than in prior years.

(4) "Seniors interest" had declined among women, but increased among men.

(5) Seniors favored "New Directions" programs which would encourage overseas cooperation between binational and multinational volunteer groups.

The prime use of studies of this type is in Peace Corps recruitment. By assessing the characteristics and attitudes of the college "pool" of potential volunteers, Peace Corps is better able to evaluate the potential match-up between interested students and host country requests, and to communicate to students ways in which their own interests can fit with Peace Corps overseas programs.

BACKGROUND INVESTIGATIONS

Mr. SHRIVER. Two of the other research contracts led to the conclusion that you could do without the full field investigation of potential volunteers. Have you discontinued such investigation?

Mr. BLATCHFORD. We have reduced it. Do you have the exact figures, Gene?

Mr. BUEHLER. Yes, sir. As a result of that we now have generally limited background investigations to the families. We run a national agency check on the single volunteers and in some instances information from that check dictates a further investigation. However, comparing the number of BI's that we conducted under our previous procedure, with the new procedure, we saved $1.6 million in 1971 and project savings of $2.8 million in 1972.

(The information follows:)

The purpose of this research was to determine the contribution made by full field investigations to the process of selecting Peace Corps volunteers from among applicants. One issue which stimulated the research was the cost of conducting full field investigations (approximately $500 per investigation), and the possibility of reducing expenditures if full fields could be reduced in number.

The research covered 1,212 1969 trainees.

Conclusions:

(1) The full field investigation deselected only about 1.5 percent of prospective trainees. Others (1.2 percent) which would have been deselected as a result of full field investigations were either self-eliminated, or eliminated by other means.

(2) The small potential benefits obtained from deselecting a tiny group of 1.5 percent do not offset the high cost of doing full fields on all, or nearly all, those invited to training.

As a result of this, and subsequent study and testing of the full-field question, Peace Corps has substantially reduced the number of full-field investigations done in 1971, as compared to prior years. The money thus saved is shown in the Congressional Presentation fact book.

OTHER RESEARCH CONTRACTS

Mr. SHRIVER. Another research contract dealt with what you need to do to increase the interest of college students in joining the Peace Corps. What changes did you make in answer to such recommendations?

Mr. BLATCHFORD. These are usually public opinion polls as to their career goals and we take them every year or every 2 years to see their interest in domestic, international, fields they are going into, matching that with the needs overseas and the requests as they come in, and these have generally helped a great deal.

Mr. SHRIVER. You spent $51,482 for a research contract to Basico Corp. for a manual regarding agricultural programs for small farmers in Latin America?

Mr. BUEHLER. Basico.

Mr. SHRIVER. The project director was a former Peace Corps staff member. Would you comment on this one?

Mr. BLATCHFORD. Yes; that is an essential element to the training of the greater input in agriculture. We increased greatly the numbers of recruits, training programs, volunteers overseas in agriculture in the last year. We have needed that kind of—I think it was John Guy Smith, one of the experts in this field, who knows Peace Corps and knows agriculture—this is exactly the kind of thing we need.

Mr. SHRIVER. Of all the agricultural technical work that AID has done in Latin America, we did not have anything like that?

Mr. BUEHLER. I think it is to design and develop curriculum for Peace Corps training projects.

Basico, in fact, does do agricultural training.

Mr. SHRIVER. Why do you not put a description into the record?

Mr. BLATCHFORD. We will, because the AID works at a different level.

Mr. SHRIVER. It is pretty hazy to me, from your description of it particularly.

(The information follows:)

The overall intent in contracting with Basico was to aid Peace Corps staff and volunteers in Latin America maximize their effectiveness in agricultural and agricultural-related programs for small-scale farmers ("campesinos").

The contractor (Basico) was selected on the basis of his experience and proven capability in doing prior work for Peace Corps, and on the excellence of his Latin America based technical staff, many of whom are highly experienced Latin American agriculturists.

The product of this contract is a program manual in three parts, as follows:

I. "The Case for Assisting the Small Farmer in Latin America." This fact-filled manual outlines, in some 121 pages of detail, the nature, conditions, distribution of resources, costs of production and economic importance of agriculture in Latin America.

II. "Program Strategy and Programing Guidelines." This manual sets up procedures and criteria for evaluating the principal factors that determine the effectiveness of programs which aim at income-increase of small-scale farmers.

III. "Economic and Technological Guidelines for Volunteers assigned to Agricultural Programs." This manual assesses the small farmer's economic opportunities, and recommends criteria and procedures for evaluating local opportunities to increase his income.

In net terms, this manual provides facts and guidelines for both staff and Volunteers, to be used in training and field work with Campesinos. It is currently so used.

TERMINATION DATES OF PROJECTS

Mr. SHRIVER. What countries are you going to drop out of this year? I do not mean pushed out.

Mr. BLATCHFORD. I do not know, Congressman, but I would like to make the point that it is indicated that of you leave a country, are asked to leave, that is a failure on the part of the Peace Corps. I would object strongly to that because I do not think that has anything to do with the Peace Corps.

Only one country in 1965, Pakistan, gave as their reason the lack of technical skills and confidence on the part of Peace Corps volun-

teers. We saw that as a weakness in the Peace Corps 2 years ago. We have changed that. Because we have changed it, we have been invited into Mali, Mauritius, the Congo, Malta, and into two countries which were in the process of phasing down numbers of Peace Corps volunteers, Malawi and Turkey, where we would have been out had we not. But even there, not one country gave it as their reason, they still never said anything against the quality of performance of the volunteers themselves. The times had changed. There is a greater need for skills. Where we are providing those skills, we are asked to stay in. Leftist or rightist.

In Chile, for example, where we are maintaining our program there, it is in skilled areas such as forestry and fisheries, the Government wants the volunteers. We have not been caught up in political battles there, but oftentimes we are. Oftentimes the local internal political struggles allow the students to take a crack at the most visible and productive contribution the United States is making, and that is in the Peace Corps.

If we were doing nothing, no one would hear of us, there would be no visibility, we would not be used in a local political power play but, because they are making a contribution, because they are getting results, because they are visible and because they are effective, we often get used in political fighting. That happened in Bolivia; it may happen again. It has not been due to failure of the Peace Corps to make a contribution, to be effective, but it has been just the reverse, because they are well-liked in the villages and are making a contribution and are effective.

I do not see why we should abandon the Peace Corps or its mission overseas because of this, especially when more countries are coming in and asking us for more volunteers.

Mr. SHRIVER. What role do you see the Peace Corps playing in Chile now that there has been a change?

Mr. BLATCHFORD. The continued technical role in fisheries, agriculture, forestry.

Mr. SHRIVER. And I assume you visualize that this is an advantage to the United States?

Mr. BLATCHFORD. I think it is an advantage to continue to show that our people want to help their people in the development needs as they see them. And that Peace Corps volunteers are going to continue to help regardless of what government there is. It is up to them to choose their government. It is up to us at their invitation to help on very specific projects which help their people. Governments change. Bolivia has had a government a year probably since the country began. That is not going to change. That is political turmoil. It is not our business to comment or to change it, but it is realistic to see that when an Arab nationalist government comes into Somali and asks the Peace Corps to leave, it is not because the Peace Corps was not making a contribution. These things will continue to happen.

We will stay in Chile, if we can make a contribution, wherever we are. I do not think the Peace Corps ought to be judged by the American people, and we would hope not by the Congress, on the number of volunteers or countries that it is in or out of, especially since the reasons given have never reflected on the quality of the volunteer.

FRANKED MAIL

Mr. SHRIVER. Some place I read about a "Dear Friend of the Peace Corps" letter, dated February 1, 1971, signed by Anne Mishley, which advertised a $7.95 book called, "The First Ten Years of the Peace Corps: A Moment in History."

Are you familiar with that?

Mr. BLATCHFORD. Yes; I am.

Mr. SHRIVER. The letter was written on a Government frank, I understand.

Mr. BLATCHFORD. Yes, this was an error, a clerical error. We were before the Government Operations Committee and we tried to clear this up.

Mr. SHRIVER. Why do we not clear it up here, too?

Mr. BLATCHFORD. Yes.

The former Deputy Director of the Peace Corps wrote a book on his experiences in the Peace Corps. His wife called the Peace Corps and asked for a mailing list of those who had served with him in the countries he had been in; India was one of them. The girl in his office gave her a list—a list is held by the American Mailing Company with envelopes. So we do not hand over actual lists.

Now this girl forwarded the request over to American Mailing. American Mailing was under the impression this was a Peace Corps mail-out and used the Peace Corps envelopes to this limited mailing. When we found it out, we notified the publisher and the author, who promptly reimbursed the Peace Corps for the cost of those envelopes and that mailing. It was really a mistake. American Mailing did not know that it was a commercial thing.

Our girl made a grave error, admitted so, and has been told this. Because she should not have forwarded that request over to American Mailing. It was an error which we cleared up and for which the money has been reimbursed.

Mr. SHRIVER. I believe that is all.

Thank you, Mr. Roybal.

Mr. ROYBAL. Mrs. Reid?

PERCENTAGE OF VOLUNTEERS COMPLETING THE PROGRAM

Mrs. REID. Approximately what percent of those who apply for the Peace Corps are accepted—and of those accepted, what percent remain through the training period and the normal overseas tour?

Mr. BLATCHFORD. Approximately 25 percent of the applicants enter training. Following are figures representing Peace Corps operations as of April 30, 1971:

(The table follows:)

	Registered for training	Completed number	Service percent
Africa	16,776	[1] 8,612	[2] 51.3
East Asia and Pacific	12,969	5,724	44.1
Latin America	22,994	9,650	41.9
North Africa, Near East, and South Asia	12,456	5,691	45.7
World total	65,735	30,677	45.1

[1] Currently.
[2] This percent does not include current volunteers in the field.

CONTRIBUTION OF A VOLUNTEER FAMILY

Mrs. REID. What is the average size of the families recruited for overseas service? What skill does the father usually have and do the wife and children usually make some contribution?

Mr. BLATCHFORD. The average size family recruited for overseas service is about 4½ people. That is, a head of household, spouse, and two to 2½ children. Generally the father possesses skills that fall into the following categories:

Twelve percent agriculture and agricultural related fields.

Twenty-six percent skilled trades (vocational education, plumbers, mechanics, electricians, and so forth).

Thirty-three percent professional services (business backgrounds, lawyers, architects, engineers, and so forth).

Twenty-nine percent education (curriculum development, teacher trainers, M.A., Ph. D.'s, and so forth).

The spouse or wife in the family is also expected to make some contribution. Our overseas staff usually can find a part-time or full-time position for the wife depending on the number and age of the children. Most of the children overseas are either of school age or preschool age. Thusly, this limits their ability to make any tangible contribution. However, we do have a couple of families where both the father and son are full-time volunteers.

"GENERALIST" VOLUNTEER TRAINING

Mrs. REID. How much and what type of training is given to a "generalist" volunteer before he is sent overseas?

Mr. BLATCHFORD. "Generalist" volunteers usually receive from 12 to 15 weeks of intensive training in technical studies (defined as a combination of teaching skills and technical proficiency in an area). Language and cross-cultural/community development orientation. This intensive instruction is given to qualify recent college graduates for overseas service in the areas of education (elementary and secondary); agriculture (farming and extension); public works (irrigation), (land resettlement); and health and sanitation.

RECRUITING TECHNIQUES

Mrs. REID. How do you go about recruiting those with hard skills, such as plumbers, electricians, and carpenters? Are they usually older persons?

Mr. BLATCHFORD. In order to recruit particularly hard skills, we employ the following techniques:

(*a*) Classified advertising in areas and locations where people with that skill can be found or in papers, journals, and magazines unique to their skill or education.

(*b*) Specific assignment to recruiters who by the nature of their location, expertise, or education are most likely to find an application with a specific skill.

(*c*) Selected contact with placement services for specific organizations and associations. Attendance at their conventions and conferences. Direct mail appeals to their membership.

(*d*) Special recruiting by selected Washington and overseas staff.

FOREIGN VOLUNTEER PROGRAMS

Mrs. REID. In your statement on page 7 you speak of an effort to put Peace Corps volunteers to work in multinational teams. What other countries have programs similar to our Peace Corps?

Mr. BLATCHFORD. Twenty-five countries send 22,291 long-term (1 year or more) volunteers overseas. The chief volunteer sending countries are shown in the table.

(The table follows:)

United States	6,290
United Kingdom	1,800
Germany	1,400
Canada	1,123
France (plus 6,700 fulfilling military obligations)	440
Belgium	600
Japan	468
Netherlands	407
Denmark	330

FUNCTION OF NEW "ACTION" AGENCY

Mrs. REID. In the new Action Corps how will the domestic and overseas programs be coordinated? For example, will a teacher be able to spend part of his enlistment period in this country and then part overseas?

Mr. BLATCHFORD. Yes; that is one of the benefits that will be possible under Action programs. The Vista teaching experience provides volunteers in this field with a strong base of effectiveness that can and should be utilized where necessary to fill requests from overseas. In the same framework, Peace Corps volunteers who wish to continue their service will be directed into domestic programs where the best use can be made of their skills.

USE OF RETIRED PEOPLE

Mrs. REID. What use, if any, has been made of retired persons in the Peace Corps?

Mr. BLATCHFORD. Volunteer service in Peace Corps is not restricted to any age group over 18. Although the majority of those participating are in their twenties, we have many retired persons possessing needed skills who are finding a new and rewarding dimension to their lives through their overseas service as volunteers.

INTERN PROGRAMS

Mrs. REID. Would you expand on your remarks on page 11 of your statement that you see a large role for private institutions working with the Peace Corps, particularly universities which can design "intern" programs to meet specific needs abroad? What type of intern programs do you have in mind?

Mr. BLATCHFORD. At the present, about 200 volunteers enter the Peace Corps each year through intern programs under which the

university recruits and provides partial training for volunteers going to a particular country and project.

Most of these programs are today in agriculture and fisheries programs. We have every indication that intern programs provide volunteers who are better trained, have a more certain knowledge of the job they are undertaking and are more likely to be successful. Next year we expect to expand the number of volunteers entering through intern programs to nearly 500, using 19 colleges and universities. The majority of the new programs will be in education, particularly in math, science and curriculum development which are scarce skill areas for us. We have begun five joint programs with the Teachers Corps in which volunteers will train as teachers with a university and in a school system, getting advanced degree credit and a teaching certificate before going abroad for 2 years in the Peace Corps. Programs of this kind have been enthusiastically supported by our overseas staff and officials of the local governments.

ADMINISTRATIVE PERSONNEL COMPARED TO VOLUNTEERS

Mrs. REID. What is the percentage of administrative personnel to volunteers in the field today compared to 2 years ago when you first became director?

Mr. BLATCHFORD. As of June 30, 1969, the percentage of staff as compared to volunteers was 14.5 percent. The percentage as of June 30, 1971, was 17.2 percent.

AVERAGE COST PER VOLUNTEER

Mrs. REID. You mention on page 8 that the cost of programing and training a smaller number of more specialized volunteers is more expensive than mass programing and training. What is the average cost per volunteer today?

Mr. BLATCHFORD. In fiscal year 1967, for example, Peace Corps had 12,228 volunteers in the field. The average annual cost per volunteer was $7,458. In fiscal year 1971, the average annual cost is $10,613 per volunteer with 6,290 in the field.

Mr. ROYBAL. It is my understanding that they have started to read the bill on the floor. What would be your wish, Mr. McEwen? We can continue, I suppose, briefly.

Mr. MCEWEN. I have no further questions, Mr. Chairman.

Mr. ROYBAL. If there are no further questions, we would like to thank you for your testimony.

I would like to request, however, before adjourning until tomorrow at 10 o'clock, that you supply to the committee the names of the Spanish-speaking personnel that you might have in Latin America who occupy positions each as directors and assistant directors, that is in the administrative end of it. I would like to have the names supplied for the record, of you please.

Mr. BLATCHFORD. Fine; I shall be happy to.

(The information follows:)

WASHINGTON

Ivan Alio—Regional Health Specialist
Alejandro Becerra—Assistant Chief, Program and Training
Juan Casasco—Assistant Chief, Program and Training
Alfredo Perez—Chief of Operations and Acting Regional Director
David Valenzuela—Country Desk Officer—Central America

OVERSEAS

Brazil—James Cusenza, Associate PC Director
Chile—Julian Abuelo, PC Physician
Colombia—Robert Arias, Language Coordinator; Rene Gonzalez, Associate PC Director; Alberto Ibarquen, Program/Training Officer; and Henry Jibaja, Associate PC Director
Dominican Republic—Ellis Carrasco, Director
Ecuador—John Arango, Director
El Salvador—Manuel Avila, Regional Development Specialist
Guatemala—Joe Sanchez, Deputy Director
Paraguay—Hill Luz, Agricultural Program Representative
Peru—Luis Juarez, Associate PC Director; Edward Delci, Associate PC Director; and David Buentello, Associate PC Director

Mr. ROYBAL. Thank you very much. The committee is adjourned until 10 o'clock tomorrow morning.

LIST OF WITNESSES

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